



ANNUAL STATEMENT

For the Year Ending December 31, 2006
of the Condition and Affairs of the

Blue Care Network of Michigan

NAIC Group Code.....572, 572
(Current Period) (Prior Period)

NAIC Company Code..... 95610

Employer's ID Number..... 38-2359234

Organized under the Laws of Michigan

State of Domicile or Port of Entry Michigan

Country of Domicile US

Licensed as Business Type.....Health Maintenance Organization

Is HMO Federally Qualified? Yes [X] No []

Incorporated/Organized..... May 6, 1981

Commenced Business..... May 13, 1981

Statutory Home Office

20500 Civic Center Drive..... Southfield MI 48076
(Street and Number) (City, State and Zip Code)

Main Administrative Office

20500 Civic Center Drive..... Southfield MI 48076
(Street and Number) (City, State and Zip Code)

248-799-6400
(Area Code) (Telephone Number)

Mail Address

20500 Civic Center Drive MC C455..... Southfield MI 48076
(Street and Number or P. O. Box) (City, State and Zip Code)

Primary Location of Books and Records

20500 Civic Center Drive..... Southfield MI 48076
(Street and Number) (City, State and Zip Code)

248-455-3410
(Area Code) (Telephone Number)

Internet Website Address

www.mibcn.com

Statutory Statement Contact

Joseph John Andraska
(Name)
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248-455-3428
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Policyowner Relations Contact

20500 Civic Center Drive..... Southfield MI 48076
(Street and Number) (City, State and Zip Code)

800-662-6667
(Area Code) (Telephone Number) (Extension)

OFFICERS

Name	Title	Name	Title
1. Jeanne Helen Carlson	President & Chief Executive Officer	2. Julie Concetta Swantek	Secretary
3. Susan Anne Kluge	Treasurer & Chief Financial Officer	4. David Robert Nelson	Chief Actuarial Officer

OTHER

Douglas Robert Woll MD	Chief Medical Officer	Laurie Lowe Westfall #	Chief Operating Officer
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DIRECTORS OR TRUSTEES

Julie Anne Angott	Mark Robert Bartlett	William Harrison Black	Charles Lee Burkett
Jeanne Helen Carlson	Shauna Ryder Diggs MD	Franklin Delano Garrison	Janet Louise Harden
DeMerritte Bonta Hiscoe MD	Valeria Ann Holmon	Karen Marie Knapp	Daniel Joseph Loepp
Donald Glenn Oetman	Gregory Alan Sudderth	Diana Lynn Watson	

State of..... Michigan
County of..... Oakland

The officers of this reporting entity being duly sworn, each depose and say that they are the described officers of said reporting entity, and that on the reporting period stated above, all of the herein described assets were the absolute property of the said reporting entity, free and clear from any liens or claims thereon, except as herein stated, and that this statement, together with related exhibits, schedules and explanations therein contained, annexed or referred to, is a full and true statement of all the assets and liabilities and of the condition and affairs of the said reporting entity as of the reporting period stated above, and of its income and deductions therefrom for the period ended, and have been completed in accordance with the NAIC *Annual Statement Instructions* and *Accounting Practices and Procedures* manual except to the extent that: (1) state law may differ; or, (2) that state rules or regulations require differences in reporting not related to accounting practices and procedures, according to the best of their information, knowledge and belief, respectively. Furthermore, the scope of this attestation by the described officers also includes the related corresponding electronic filing with the NAIC, when required, that is an exact copy (except for formatting differences due to electronic filing) of the enclosed statement. The electronic filing may be requested by various regulators in lieu of or in addition to the enclosed statement.

(Signature)	(Signature)	(Signature)
Jeanne Helen Carlson	Julie Concetta Swantek	Susan Anne Kluge
1. (Printed Name)	2. (Printed Name)	3. (Printed Name)
President & Chief Executive Officer	Secretary	Treasurer & Chief Financial Officer
(Title)	(Title)	(Title)

Subscribed and sworn to before me

a. Is this an original filing? Yes [X] No []

This day of

b. If no

1. State the amendment number

2. Date filed

3. Number of pages attached

ASSETS

	Current Year			Prior Year
	1	2	3	4
	Assets	Nonadmitted Assets	Net Admitted Assets (Cols. 1 - 2)	Net Admitted Assets
1. Bonds (Schedule D).....	43,222,522		43,222,522	160,725,731
2. Stocks (Schedule D):				
2.1 Preferred stocks.....			0	
2.2 Common stocks.....	230,989,723	117,864,424	113,125,299	1,775,858
3. Mortgage loans on real estate (Schedule B):				
3.1 First liens.....			0	
3.2 Other than first liens.....			0	
4. Real estate (Schedule A):				
4.1 Properties occupied by the company (less \$.....0 encumbrances).....			0	
4.2 Properties held for the production of income (less \$.....0 encumbrances).....			0	
4.3 Properties held for sale (less \$.....0 encumbrances).....			0	
5. Cash (\$.....24,288,063, Sch. E-Part 1), cash equivalents (\$.....0, Sch. E-Part 2) and short-term investments (\$.....372,478,102, Sch. DA).....	396,766,165		396,766,165	434,866,053
6. Contract loans (including \$.....0 premium notes).....			0	
7. Other invested assets (Schedule BA).....	65,954,840		65,954,840	56,008,811
8. Receivables for securities.....			0	
9. Aggregate write-ins for invested assets.....	0	0	0	0
10. Subtotals, cash and invested assets (Lines 1 to 9).....	736,933,250	117,864,424	619,068,826	653,376,453
11. Title plants less \$.....0 charged off (for Title insurers only).....			0	
12. Investment income due and accrued.....	6,079,343		6,079,343	6,438,903
13. Premiums and considerations:				
13.1 Uncollected premiums and agents' balances in course of collection.....	7,015,409	195,217	6,820,192	16,956,152
13.2 Deferred premiums, agents' balances and installments booked but deferred and not yet due (including \$.....0 earned but unbilled premiums).....			0	
13.3 Accrued retrospective premiums.....			0	
14. Reinsurance:				
14.1 Amounts recoverable from reinsurers.....			0	
14.2 Funds held by or deposited with reinsured companies.....			0	
14.3 Other amounts receivable under reinsurance contracts.....			0	
15. Amounts receivable relating to uninsured plans.....			0	
16.1 Current federal and foreign income tax recoverable and interest thereon.....			0	
16.2 Net deferred tax asset.....			0	
17. Guaranty funds receivable or on deposit.....			0	
18. Electronic data processing equipment and software.....	4,726,565	3,195,220	1,531,345	1,389,968
19. Furniture and equipment, including health care delivery assets (\$.....1,457,130).....	6,985,514	5,528,384	1,457,130	3,366,100
20. Net adjustment in assets and liabilities due to foreign exchange rates.....			0	
21. Receivables from parent, subsidiaries and affiliates.....	9,212,476	16,423	9,196,053	8,758,251
22. Health care (\$.....6,577,098) and other amounts receivable.....	8,829,185	2,096,631	6,732,554	7,419,652
23. Aggregate write-ins for other than invested assets.....	3,198,625	3,198,625	0	0
24. Total assets excluding Separate Accounts, Segregated Accounts and Protected Cell Accounts (Lines 10 to 23).....	782,980,367	132,094,924	650,885,443	697,705,479
25. From Separate Accounts, Segregated Accounts and Protected Cell Accounts.....			0	
26. TOTALS (Lines 24 and 25).....	782,980,367	132,094,924	650,885,443	697,705,479

DETAILS OF WRITE-INS				
0901.			0	
0902.			0	
0903.			0	
0998. Summary of remaining write-ins for Line 9 from overflow page.....	0	0	0	0
0999. Totals (Lines 0901 thru 0903 plus 0998) (Line 9 above).....	0	0	0	0
2301. Due from University of Michigan.....	1,893,195	1,893,195	0	
2302. Prepaid expenses.....	1,299,646	1,299,646	0	
2303. Other Accounts Receivable.....	5,784	5,784	0	
2398. Summary of remaining write-ins for Line 23 from overflow page.....	0	0	0	0
2399. Totals (Lines 2301 thru 2303 plus 2398) (Line 23 above).....	3,198,625	3,198,625	0	0

LIABILITIES, CAPITAL AND SURPLUS

	Current Period			Prior Year
	1 Covered	2 Uncovered	3 Total	4 Total
1. Claims unpaid (less \$.....7,857,452 reinsurance ceded).....	.....213,946,219	.....8,549,396	.....222,495,615	.....199,792,534
2. Accrued medical incentive pool and bonus amounts.....	.....48,913,134		.....48,913,134	.....46,155,302
3. Unpaid claims adjustment expenses.....	.....5,778,670		.....5,778,670	.....4,911,091
4. Aggregate health policy reserves.....	.....4,955,936		.....4,955,936	.....6,715,144
5. Aggregate life policy reserves.....			.....0	
6. Property/casualty unearned premium reserve.....			.....0	
7. Aggregate health claim reserves.....			.....0	
8. Premiums received in advance.....	.....31,838,588		.....31,838,588	.....27,366,622
9. General expenses due or accrued.....	.....35,091,127		.....35,091,127	.....33,364,805
10.1 Current federal and foreign income tax payable and interest thereon (including \$.....0 on realized capital gains (losses)).....			.....0	
10.2 Net deferred tax liability.....			.....0	
11. Ceded reinsurance premiums payable.....			.....0	
12. Amounts withheld or retained for the account of others.....	.....2,611,350		.....2,611,350	.....2,253,470
13. Remittances and items not allocated.....			.....0	.....2,354
14. Borrowed money (including \$.....0 current) and interest thereon \$.....0 (including \$.....0 current).....			.....0	
15. Amounts due to parent, subsidiaries and affiliates.....	.....13,316,305		.....13,316,305	.....14,134,978
16. Payable for securities.....			.....0	
17. Funds held under reinsurance treaties with (\$.....0 authorized reinsurers and \$.....0 unauthorized reinsurers).....			.....0	
18. Reinsurance in unauthorized companies.....			.....0	
19. Net adjustments in assets and liabilities due to foreign exchange rates.....			.....0	
20. Liability for amounts held under uninsured plans.....	.....178,146		.....178,146	
21. Aggregate write-ins for other liabilities (including \$....2,024,181 current).....	.....57,420,047	.....0	.....57,420,047	.....49,986,265
22. Total liabilities (Lines 1 to 21).....	.....414,049,522	.....8,549,396	.....422,598,918	.....384,682,565
23. Aggregate write-ins for special surplus funds.....	.....XXX	.....XXX	.....0	.....0
24. Common capital stock.....	.....XXX	.....XXX	.....10,000	.....10,000
25. Preferred capital stock.....	.....XXX	.....XXX		
26. Gross paid in and contributed surplus.....	.....XXX	.....XXX	.....15,643,045	.....15,643,045
27. Surplus notes.....	.....XXX	.....XXX		
28. Aggregate write-ins for other than special surplus funds.....	.....XXX	.....XXX	.....0	.....0
29. Unassigned funds (surplus).....	.....XXX	.....XXX	.....212,633,480	.....297,369,869
30. Less treasury stock at cost:				
30.1 ....0.000 shares common (value included in Line 24 \$.....0).....	.....XXX	.....XXX		
30.2 ....0.000 shares preferred (value included in Line 25 \$.....0).....	.....XXX	.....XXX		
31. Total capital and surplus (Lines 23 to 29 minus Line 30).....	.....XXX	.....XXX	.....228,286,525	.....313,022,914
32. Total liabilities, capital and surplus (Lines 22 and 31).....	.....XXX	.....XXX	.....650,885,443	.....697,705,479

DETAILS OF WRITE-INS

2101. Accrued Post Retirement Benefits.....	.....44,098,896		.....44,098,896	.....39,599,559
2102. Accrued Pension.....	.....10,996,699		.....10,996,699	.....6,621,122
2103. Physician Incentive payable for POS.....			.....0	.....1,471,888
2198. Summary of remaining write-ins for Line 21 from overflow page.....	.....2,324,452	.....0	.....2,324,452	.....2,293,696
2199. Totals (Lines 2101 thru 2103 plus 2198) (Line 21 above).....	.....57,420,047	.....0	.....57,420,047	.....49,986,265
2301. ....	.....XXX	.....XXX		
2302. ....	.....XXX	.....XXX		
2303. ....	.....XXX	.....XXX		
2398. Summary of remaining write-ins for Line 23 from overflow page.....	.....XXX	.....XXX	.....0	.....0
2399. Totals (Lines 2301 thru 2303 plus 2398) (Line 23 above).....	.....XXX	.....XXX	.....0	.....0
2801. ....	.....XXX	.....XXX		
2802. ....	.....XXX	.....XXX		
2803. ....	.....XXX	.....XXX		
2898. Summary of remaining write-ins for Line 28 from overflow page.....	.....XXX	.....XXX	.....0	.....0
2899. Totals (Lines 2801 thru 2803 plus 2898) (Line 28 above).....	.....XXX	.....XXX	.....0	.....0

STATEMENT OF REVENUE AND EXPENSES

	Current Year		Prior Year
	1 Uncovered	2 Total	3 Total
1. Member months.....	XXX.....	5,622,483	5,398,464
2. Net premium income (including \$.....0 non-health premium income).....	XXX.....	1,563,699,858	1,438,390,510
3. Change in unearned premium reserves and reserve for rate credits.....	XXX.....	1,759,208	(496,768)
4. Fee-for-service (net of \$.....9,667,703 medical expenses).....	XXX.....	(2,299,049)	(2,108,491)
5. Risk revenue.....	XXX.....	3,745,605	3,445,133
6. Aggregate write-ins for other health care related revenues.....	XXX.....	142,150	199,030
7. Aggregate write-ins for other non-health revenues.....	XXX.....	0	0
8. Total revenues (Lines 2 to 7).....	XXX.....	1,567,047,772	1,439,429,414
Hospital and Medical:			
9. Hospital/medical benefits.....	6,487,105	871,396,444	730,709,993
10. Other professional services.....		33,173,546	33,504,341
11. Outside referrals.....	62,976,625	62,976,625	50,200,078
12. Emergency room and out-of-area.....	1,293,980	95,673,472	86,215,782
13. Prescription drugs.....		248,172,241	227,103,613
14. Aggregate write-ins for other hospital and medical.....	0	2,260,363	2,483,649
15. Incentive pool, withhold adjustments and bonus amounts.....		38,212,671	26,412,095
16. Subtotal (Lines 9 to 15).....	70,757,710	1,351,865,362	1,156,629,551
Less:			
17. Net reinsurance recoveries.....		5,912,905	2,527,658
18. Total hospital and medical (Lines 16 minus 17).....	70,757,710	1,345,952,457	1,154,101,893
19. Non-health claims (net).....			
20. Claims adjustment expenses, including \$.....52,368,783 cost containment expenses.....		71,981,102	70,738,036
21. General administrative expenses.....		152,607,030	152,537,245
22. Increase in reserves for life and accident and health contracts including \$.....0 increase in reserves for life only).....			
23. Total underwriting deductions (Lines 18 through 22).....	70,757,710	1,570,540,589	1,377,377,174
24. Net underwriting gain or (loss) (Lines 8 minus 23).....	XXX.....	(3,492,817)	62,052,240
25. Net investment income earned (Exhibit of Net Investment Income, Line 17).....		32,815,162	20,725,627
26. Net realized capital gains or (losses) less capital gains tax of \$.....0.....		(996,863)	(4,237,380)
27. Net investment gains or (losses) (Lines 25 plus 26).....	0	31,818,299	16,488,247
28. Net gain or (loss) from agents' or premium balances charged off [(amount recovered \$.....351,709) (amount charged off \$.....255,447)].....		96,262	(92,237)
29. Aggregate write-ins for other income or expenses.....	0	(1,000)	0
30. Net income or (loss) after capital gains tax and before all other federal income taxes (Lines 24 plus 27 plus 28 plus 29).....	XXX.....	28,420,744	78,448,250
31. Federal and foreign income taxes incurred.....	XXX.....	31,541	51,816
32. Net income (loss) (Lines 30 minus 31).....	XXX.....	28,389,203	78,396,434
DETAILS OF WRITE-INS			
0601. Other Revenue.....	XXX.....	110,968	168,230
0602. Pharmacy Revenue.....	XXX.....	31,182	30,800
0603.	XXX.....		
0698. Summary of remaining write-ins for Line 6 from overflow page.....	XXX.....	0	0
0699. Totals (Lines 0601 thru 0603 plus 0698) (Line 6 above).....	XXX.....	142,150	199,030
0701.	XXX.....		
0702.	XXX.....		
0703.	XXX.....		
0798. Summary of remaining write-ins for Line 7 from overflow page.....	XXX.....	0	0
0799. Totals (Lines 0701 thru 0703 plus 0798) (Line 7 above).....	XXX.....	0	0
1401. Other Medical Expense.....		1,545,997	1,405,965
1402. Occupancy, Depreciation and Amortization.....		714,366	1,077,684
1403.			
1498. Summary of remaining write-ins for Line 14 from overflow page.....	0	0	0
1499. Totals (Lines 1401 thru 1403 plus 1498) (Line 14 above).....	0	2,260,363	2,483,649
2901. Regulatory Fee.....		(1,000)	
2902.			
2903.			
2998. Summary of remaining write-ins for Line 29 from overflow page.....	0	0	0
2999. Totals (Lines 2901 thru 2903 plus 2998) (Line 29 above).....	0	(1,000)	0

STATEMENT OF REVENUE AND EXPENSES (Continued)

CAPITAL AND SURPLUS ACCOUNT	1 Current Year	2 Prior Year
33. Capital and surplus prior reporting period.....	.....313,022,914	.....218,478,204
34. Net income or (loss) from Line 32.....	.....28,389,203	.....78,396,434
35. Change in valuation basis of aggregate policy and claim reserves.....	.....	.....
36. Change in net unrealized capital gains and (losses) less capital gains tax of \$.....0.....	.....9,922,067	.....3,126,114
37. Change in net unrealized foreign exchange capital gain or (loss).....	.....	.....
38. Change in net deferred income tax.....	.....	.....
39. Change in nonadmitted assets.....	.....(123,047,659)	.....2,669,155
40. Change in unauthorized reinsurance.....	.....	.....
41. Change in treasury stock.....	.....	.....
42. Change in surplus notes.....	.....	.....
43. Cumulative effect of changes in accounting principles.....	.....	.....
44. Capital changes:		
44.1 Paid in.....	.....	.....
44.2 Transferred from surplus (Stock Dividend).....	.....	.....
44.3 Transferred to surplus.....	.....	.....
45. Surplus adjustments:		
45.1 Paid in.....	.....	.....
45.2 Transferred to capital (Stock Dividend).....	.....	.....
45.3 Transferred from capital.....	.....	.....
46. Dividends to stockholders.....	.....	.....
47. Aggregate write-ins for gains or (losses) in surplus.....	.....0	.....10,353,007
48. Net change in capital and surplus (Lines 34 to 47).....	.....(84,736,389)	.....94,544,710
49. Capital and surplus end of reporting period (Line 33 plus 48).....	.....228,286,525	.....313,022,914

DETAILS OF WRITE-INS		
4701. Prior period Adjustment Postretirement.....	.....	.....12,587,972
4702. Prior period Adjustment Pension.....	.....	.....(2,825,654)
4703. Prior period Adjustment Premium Bad Debt.....	.....	.....590,689
4798. Summary of remaining write-ins for Line 47 from overflow page.....	.....0	.....0
4799. Totals (Lines 4701 thru 4703 plus 4798) (Line 47 above).....	.....0	.....10,353,007

CASH FLOW

		1	2
		Current Year	Prior Year
CASH FROM OPERATIONS			
1.	Premiums collected net of reinsurance.....	1,578,155,450	1,423,897,441
2.	Net investment income.....	33,303,884	21,250,135
3.	Miscellaneous income.....	1,588,706	1,535,672
4.	Total (Lines 1 through 3).....	1,613,048,040	1,446,683,248
5.	Benefit and loss related payments.....	1,320,491,544	1,165,435,744
6.	Net transfers to Separate, Segregated Accounts and Protected Cell Accounts.....		
7.	Commissions, expenses paid and aggregate write-ins for deductions.....	214,240,513	214,653,864
8.	Dividends paid to policyholders.....		
9.	Federal and foreign income taxes paid (recovered) \$.....0 net of tax on capital gains (losses).....	31,541	51,236
10.	Total (Lines 5 through 9).....	1,534,763,598	1,380,140,844
11.	Net cash from operations (Line 4 minus Line 10).....	78,284,442	66,542,404
CASH FROM INVESTMENTS			
12.	Proceeds from investments sold, matured or repaid:		
12.1	Bonds.....	612,160,137	293,593,692
12.2	Stocks.....	1,078,944	591,466
12.3	Mortgage loans.....		
12.4	Real estate.....		
12.5	Other invested assets.....		
12.6	Net gains or (losses) on cash, cash equivalents and short-term investments.....	(662,349)	(907,772)
12.7	Miscellaneous proceeds.....		
12.8	Total investment proceeds (Lines 12.1 to 12.7).....	612,576,732	293,277,386
13.	Cost of investments acquired (long-term only):		
13.1	Bonds.....	495,189,002	361,380,725
13.2	Stocks.....	229,994,901	861,977
13.3	Mortgage loans.....		
13.4	Real estate.....		
13.5	Other invested assets.....		
13.6	Miscellaneous applications.....	300,000	
13.7	Total investments acquired (Lines 13.1 to 13.6).....	725,483,903	362,242,702
14.	Net increase (decrease) in contract loans and premium notes.....		
15.	Net cash from investments (Line 12.8 minus Lines 13.7 and 14).....	(112,907,171)	(68,965,316)
CASH FROM FINANCING AND MISCELLANEOUS SOURCES			
16.	Cash provided (applied):		
16.1	Surplus notes, capital notes.....		
16.2	Capital and paid in surplus, less treasury stock.....		
16.3	Borrowed funds.....		
16.4	Net deposits on deposit-type contracts and other insurance liabilities.....		
16.5	Dividends to stockholders.....		
16.6	Other cash provided (applied).....	(3,477,159)	6,087,950
17.	Net cash from financing and miscellaneous sources (Lines 16.1 to 16.4 minus Line 16.5 plus Line 16.6).....	(3,477,159)	6,087,950
RECONCILIATION OF CASH, CASH EQUIVALENTS AND SHORT-TERM INVESTMENTS			
18.	Net change in cash, cash equivalents and short-term investments (Line 11 plus Line 15 plus Line 17).....	(38,099,888)	3,665,038
19.	Cash, cash equivalents and short-term investments:		
19.1	Beginning of year.....	434,866,053	431,201,015
19.2	End of year (Line 18 plus Line 19.1).....	396,766,165	434,866,053

Note: Supplemental disclosures of cash flow information for non-cash transactions:

20.0001		
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ANALYSIS OF OPERATION BY LINES OF BUSINESS

	1	2	3	4	5	6	7	8	9	10	11	12	13
	Total	Comprehensive (Hospital and Medical)	Medicare Supplement	Dental Only	Vision Only	Federal Employees Health Benefit Plans	Title XVIII Medicare	Title XIX Medicaid	Stop Loss	Disability Income	Long-Term Care	Other Health	Other Non-Health
1. Net premium income.....	1,563,699,858	1,388,616,186	86,073,236			51,507,018	37,503,418						
2. Change in unearned premium reserves and reserve for rate credit.....	1,759,208	(90,204)				2,637,181	(787,769)						
3. Fee-for-service (net of \$.....0 medical expenses).....	(2,299,049)											(2,299,049)	XXX
4. Risk revenue.....	3,745,605	3,745,605											XXX
5. Aggregate write-ins for other health care related revenues.....	142,150	0	0	0	0	0	0	0	0	0	0	142,150	XXX
6. Aggregate write-ins for other non-health care related revenues.....	0	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	0
7. Total revenues (Lines 1 to 6).....	1,567,047,772	1,392,271,587	86,073,236	0	0	54,144,199	36,715,649	0	0	0	0	(2,156,899)	0
8. Hospital/medical benefits.....	871,396,444	787,008,108	26,311,613			32,038,063	26,038,660						XXX
9. Other professional services.....	33,173,546	28,628,303	2,677,506			1,165,420	702,317						XXX
10. Outside referrals.....	62,976,625	56,335,974	2,388,775			2,293,363	1,958,513						XXX
11. Emergency room and out-of-area.....	95,673,472	87,672,994	2,513,525			3,569,052	1,917,901						XXX
12. Prescription drugs.....	248,172,241	192,957,384	43,012,081			7,855,041	4,347,735						XXX
13. Aggregate write-ins for other hospital and medical.....	2,260,363	1,513,897	562,488	0	0	61,629	91,223	0	0	0	0	31,126	XXX
14. Incentive pool, withhold adjustments and bonus amounts.....	38,212,671	36,269,636				1,476,489	466,546						XXX
15. Subtotal (Lines 8 to 14).....	1,351,865,362	1,190,386,296	77,465,988	0	0	48,459,057	35,522,895	0	0	0	0	31,126	XXX
16. Net reinsurance recoveries.....	5,912,905	5,827,433					85,472						XXX
17. Total hospital and medical (Lines 15 minus 16).....	1,345,952,457	1,184,558,863	77,465,988	0	0	48,459,057	35,437,423	0	0	0	0	31,126	XXX
18. Non-health claims (net).....	0	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	
19. Claims adjustment expenses including \$.....0 cost containment expenses.....	71,981,102	63,387,872	4,171,877			2,593,808	1,827,545						
20. General administrative expenses.....	152,607,030	134,836,295	4,237,578			2,441,603	10,364,599					726,955	
21. Increase in reserves for accident and health contracts.....	0												XXX
22. Increase in reserve for life contracts.....	0	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	
23. Total underwriting deductions (Lines 17 to 22).....	1,570,540,589	1,382,783,030	85,875,443	0	0	53,494,468	47,629,567	0	0	0	0	758,081	0
24. Net underwriting gain or (loss) (Line 7 minus Line 23).....	(3,492,817)	9,488,557	197,793	0	0	649,731	(10,913,918)	0	0	0	0	(2,914,980)	0

DETAILS OF WRITE-INS

0501. Other Revenue.....	110,968											110,968	XXX
0502. Pharmacy Revenue.....	31,182											31,182	XXX
0503.	0												XXX
0598. Summary of remaining write-ins for Line 5 from overflow page.....	0	0	0	0	0	0	0	0	0	0	0	0	XXX
0599. Total (Lines 0501 thru 0503 plus 0598) (Line 5 above).....	142,150	0	0	0	0	0	0	0	0	0	0	142,150	XXX
0601.	0	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	
0602.	0	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	
0603.	0	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	
0698. Summary of remaining write-ins for Line 6 from overflow page.....	0	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	0
0699. Total (Lines 0601 thru 0603 plus 0698) (Line 6 above).....	0	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	XXX	0
1301. Other Medical Expense.....	1,545,997	1,028,555	381,058			42,152	63,106					31,126	XXX
1302. Occupancy, Depreciation and Amortization.....	714,366	485,342	181,430			19,477	28,117						XXX
1303.	0												XXX
1398. Summary of remaining write-ins for Line 13 from overflow page.....	0	0	0	0	0	0	0	0	0	0	0	0	XXX
1399. Total (Lines 1301 thru 1303 plus 1398) (Line 13 above).....	2,260,363	1,513,897	562,488	0	0	61,629	91,223	0	0	0	0	31,126	XXX

UNDERWRITING AND INVESTMENT EXHIBIT

PART 1 - PREMIUMS

		1	2	3	4
Line of Business		Direct Business	Reinsurance Assumed	Reinsurance Ceded	Net Premium Income (Cols. 1 + 2 - 3)
1.	Comprehensive (hospital and medical).....	1,396,500,977		7,884,791	1,388,616,186
2.	Medicare supplement.....	86,073,236			86,073,236
3.	Dental only.....				0
4.	Vision only.....				0
5.	Federal employees health benefits plan.....	51,507,018			51,507,018
6.	Title XVIII - Medicare.....	37,641,675		138,257	37,503,418
7.	Title XIX - Medicaid.....				0
8.	Stop loss.....				0
9.	Disability income.....				0
10.	Long-term care.....				0
11.	Other health.....				0
12.	Health subtotal (Lines 1 through 11).....	1,571,722,906	0	8,023,048	1,563,699,858
13.	Life.....				0
14.	Property/casualty.....				0
15.	Totals (Lines 12 to 14).....	1,571,722,906	0	8,023,048	1,563,699,858

UNDERWRITING AND INVESTMENT EXHIBIT
PART 2 - CLAIMS INCURRED DURING THE YEAR

	1	2	3	4	5	6	7	8	9	10	11	12	13
	Total	Comprehensive (Hospital and Medical)	Medicare Supplement	Dental Only	Vision Only	Federal Employees Health Benefits Plan	Title XVIII Medicare	Title XIX Medicaid	Stop Loss	Disability Income	Long-Term Care	Other Health	Other Non-Health
1. Payments during the year:													
1.1 Direct.....	1,294,862,286	1,144,363,636	75,655,697			46,502,513	28,309,314					31,126	
1.2 Reinsurance assumed.....	0												
1.3 Reinsurance ceded.....	8,823,242	7,928,087	861,126				34,029						
1.4 Net.....	1,286,039,044	1,136,435,549	74,794,571	0	0	46,502,513	28,275,285	0	0	0	0	31,126	0
2. Paid medical incentive pools and bonuses.....	35,454,839	34,004,371				1,450,468							
3. Claim liability December 31, current year from Part 2A:													
3.1 Direct.....	230,353,067	203,771,566	12,213,540			7,620,926	6,747,035						
3.2 Reinsurance assumed.....	0												
3.3 Reinsurance ceded.....	7,857,452	7,806,009					51,443						
3.4 Net.....	222,495,615	195,965,557	12,213,540	0	0	7,620,926	6,695,592	0	0	0	0	0	0
4. Claim reserve December 31, current year from Part 2D:													
4.1 Direct.....	0												
4.2 Reinsurance assumed.....	0												
4.3 Reinsurance ceded.....	0												
4.4 Net.....	0	0	0	0	0	0	0	0	0	0	0	0	0
5. Accrued medical incentive pools and bonuses, current year.....	48,913,134	46,630,555				1,816,033	466,546						
6. Net healthcare receivables (a).....	1,002,339	1,002,339											
7. Amounts recoverable from reinsurers December 31, current year.....	0												
8. Claim liability December 31, prior year from Part 2A:													
8.1 Direct.....	210,560,323	193,016,204	10,403,250			7,140,869							
8.2 Reinsurance assumed.....	0												
8.3 Reinsurance ceded.....	10,767,789	9,906,663	861,126										
8.4 Net.....	199,792,534	183,109,541	9,542,124	0	0	7,140,869	0	0	0	0	0	0	0
9. Claim reserve December 31, prior year from Part 2D:													
9.1 Direct.....	0												
9.2 Reinsurance assumed.....	0												
9.3 Reinsurance ceded.....	0												
9.4 Net.....	0	0	0	0	0	0	0	0	0	0	0	0	0
10. Accrued medical incentive pools and bonuses, prior year.....	46,155,302	44,291,382				1,863,920							
11. Amounts recoverable from reinsurers December 31, prior year.....	0												
12. Incurred benefits:													
12.1 Direct.....	1,313,652,691	1,154,116,659	77,465,987	0	0	46,982,570	35,056,349	0	0	0	0	31,126	0
12.2 Reinsurance assumed.....	0	0	0	0	0	0	0	0	0	0	0	0	0
12.3 Reinsurance ceded.....	5,912,905	5,827,433	0	0	0	0	85,472	0	0	0	0	0	0
12.4 Net.....	1,307,739,786	1,148,289,226	77,465,987	0	0	46,982,570	34,970,877	0	0	0	0	31,126	0
13. Incurred medical incentive pools and bonuses.....	38,212,671	36,343,544	0	0	0	1,402,581	466,546	0	0	0	0	0	0

(a) Excludes \$.....0 loans or advances to providers not yet expensed.

UNDERWRITING AND INVESTMENT EXHIBIT
PART 2A - CLAIMS LIABILITY END OF CURRENT YEAR

	1	2	3	4	5	6	7	8	9	10	11	12	13
	Total	Comprehensive (Medical and Hospital)	Medicare Supplement	Dental Only	Vision Only	Federal Employees Health Benefits Plan	Title XVIII Medicare	Title XIX Medicaid	Stop Loss	Disability Income	Long-Term Care	Other Health	Other Non-Health
1. Reported in process of adjustment:													
1.1 Direct.....	52,479,064	46,293,638	3,666,018			2,345,497	173,911						
1.2 Reinsurance assumed.....	0												
1.3 Reinsurance ceded.....	0												
1.4 Net.....	52,479,064	46,293,638	3,666,018	0	0	2,345,497	173,911	0	0	0	0	0	0
2. Incurred but unreported:													
2.1 Direct.....	169,934,824	149,538,749	8,547,522			5,275,429	6,573,124						
2.2 Reinsurance assumed.....	0												
2.3 Reinsurance ceded.....	7,857,452	7,806,009					51,443						
2.4 Net.....	162,077,372	141,732,740	8,547,522	0	0	5,275,429	6,521,681	0	0	0	0	0	0
3. Amounts withheld from paid claims and capitations:													
3.1 Direct.....	7,939,179	7,939,179											
3.2 Reinsurance assumed.....	0												
3.3 Reinsurance ceded.....	0												
3.4 Net.....	7,939,179	7,939,179	0	0	0	0	0	0	0	0	0	0	0
4. Totals:													
4.1 Direct.....	230,353,067	203,771,566	12,213,540	0	0	7,620,926	6,747,035	0	0	0	0	0	0
4.2 Reinsurance assumed.....	0	0	0	0	0	0	0	0	0	0	0	0	0
4.3 Reinsurance ceded.....	7,857,452	7,806,009	0	0	0	0	51,443	0	0	0	0	0	0
4.4 Net.....	222,495,615	195,965,557	12,213,540	0	0	7,620,926	6,695,592	0	0	0	0	0	0

UNDERWRITING AND INVESTMENT EXHIBIT

PART 2B - ANALYSIS OF CLAIMS UNPAID - PRIOR YEAR - NET OF REINSURANCE

Line of Business	Claims Paid During the Year		Claim Reserve and Claim Liability December 31 of Current Year		5	6
	1 On Claims Incurred Prior to January 1 of Current Year	2 On Claims Incurred During the Year	3 On Claims Unpaid December 31 of Prior Year	4 On Claims Incurred During the Year	Claims Incurred in Prior Years (Columns 1 + 3)	Estimated Claim Reserve and Claim Liability December 31 of Prior Year
1. Comprehensive (hospital and medical).....	151,315,758	985,119,792	10,300,351	185,665,207	161,616,109	183,109,541
2. Medicare supplement.....	9,227,994	65,566,577	379,555	11,833,985	9,607,549	9,542,123
3. Dental only.....					0	
4. Vision only.....					0	
5. Federal employees health benefits plan.....	4,787,058	41,715,455	454,690	7,166,235	5,241,748	7,140,870
6. Title XVIII - Medicare.....		28,275,285		6,695,592	0	
7. Title XIX - Medicaid.....					0	
8. Other health.....		31,126			0	
9. Health subtotal (Lines 1 to 8).....	165,330,810	1,120,708,235	11,134,596	211,361,019	176,465,406	199,792,534
10. Healthcare receivables (a).....		8,517,728			0	7,515,389
11. Other non-health.....					0	
12. Medical incentive pools and bonus amounts.....	29,800,135	5,654,704	5,038,895	43,874,239	34,839,030	46,155,302
13. Totals (Lines 9 - 10 + 11 + 12).....	195,130,945	1,117,845,211	16,173,491	255,235,258	211,304,436	238,432,447

(a) Excludes \$.00 loans or advances to providers not yet expensed.

UNDERWRITING AND INVESTMENT EXHIBIT
PART 2C - DEVELOPMENT OF PAID AND INCURRED CLAIMS
(000 Omitted)

SECTION A - PAID HEALTH CLAIMS - GRAND TOTAL

Year in Which Losses Were Incurred	Cumulative Net Amounts Paid				
	1 2002	2 2003	3 2004	4 2005	5 2006
1. Prior.....	188,703	195,244	196,462	196,633	196,625
2. 2002.....	974,433	1,150,173	1,152,690	1,153,357	1,153,361
3. 2003.....	.XXX	892,612	1,093,840	1,094,583	1,094,864
4. 2004.....	.XXX	.XXX	900,314	1,086,691	1,092,192
5. 2005.....	.XXX	.XXX	.XXX	970,312	1,159,664
6. 2006.....	.XXX	.XXX	.XXX	.XXX	1,117,845

SECTION B - INCURRED HEALTH CLAIMS - GRAND TOTAL

Year in Which Losses Were Incurred	Sum of Cumulative Net Amount Paid and Claim Liability, Claim Reserve and Medical Incentive Pool and Bonuses Outstanding at End of Year				
	1 2002	2 2003	3 2004	4 2005	5 2006
1. Prior.....	222,002	196,269	196,503	196,633	196,625
2. 2002.....	1,133,457	1,162,193	1,153,309	1,153,372	1,153,361
3. 2003.....	.XXX	1,126,764	1,105,637	1,094,922	1,094,896
4. 2004.....	.XXX	.XXX	1,145,140	1,105,313	1,093,292
5. 2005.....	.XXX	.XXX	.XXX	1,197,284	1,174,673
6. 2006.....	.XXX	.XXX	.XXX	.XXX	1,373,080

SECTION C - INCURRED YEAR HEALTH CLAIM AND CLAIM ADJUSTMENT EXPENSE RATIO - GRAND TOTAL

Years in Which Premiums were Earned and Claims were Incurred	1 Premiums Earned	2 Claim Payments	3 Claim Adjustment Expense Payments	4 Percent (Col. 3/2)	5 Claim and Claim Adjustment Expense Payments (Col. 2 + 3)	6 Percent (Col. 5/1)	7 Claims Unpaid	8 Unpaid Claim Adjustment Expense	9 Total Claims and Claims Adjustment Expense Incurred (Col. 5 + 7 + 8)	10 Percent (Col. 9/1)
1. 2002.....	1,290,524	1,153,361	12,617	1.1	1,165,978	90.3			1,165,978	90.3
2. 2003.....	1,359,511	1,094,864	67,664	6.2	1,162,528	85.5	63		1,162,591	85.5
3. 2004.....	1,399,007	1,092,192	85,050	7.8	1,177,242	84.1	1,100	9	1,178,351	84.2
4. 2005.....	1,437,894	1,159,664	70,492	6.1	1,230,156	85.6	15,011	887	1,246,054	86.7
5. 2006.....	1,565,460	1,117,845	59,959	5.4	1,177,804	75.2	255,235	4,882	1,437,921	91.9

UNDERWRITING AND INVESTMENT EXHIBIT
PART 2C - DEVELOPMENT OF PAID AND INCURRED CLAIMS
(000 Omitted)

SECTION A - PAID HEALTH CLAIMS - HOSPITAL AND MEDICAL

Year in Which Losses Were Incurred	Cumulative Net Amounts Paid				
	1 2002	2 2003	3 2004	4 2005	5 2006
1. Prior.....	149,036	154,394	155,579	155,750	155,746
2. 2002.....	880,207	1,039,836	1,042,068	1,042,686	1,042,698
3. 2003.....	XXX	808,024	995,258	995,787	996,180
4. 2004.....	XXX	XXX	812,611	986,237	991,416
5. 2005.....	XXX	XXX	XXX	869,788	1,044,104
6. 2006.....	XXX	XXX	XXX	XXX	982,025

SECTION B - INCURRED HEALTH CLAIMS - HOSPITAL AND MEDICAL

Year in Which Losses Were Incurred	Sum of Cumulative Net Amount Paid and Claim Liability, Claim Reserve and Medical Incentive Pool and Bonuses Outstanding at End of Year				
	1 2002	2 2003	3 2004	4 2005	5 2006
1. Prior.....	180,369	155,316	155,618	155,750	155,746
2. 2002.....	1,026,052	1,050,745	1,042,652	1,042,696	1,042,698
3. 2003.....	XXX	1,025,665	1,006,410	996,109	996,240
4. 2004.....	XXX	XXX	1,040,630	1,003,934	992,445
5. 2005.....	XXX	XXX	XXX	1,079,160	1,058,160
6. 2006.....	XXX	XXX	XXX	XXX	1,209,403

SECTION C - INCURRED YEAR HEALTH CLAIM AND CLAIM ADJUSTMENT EXPENSE RATIO - HOSPITAL AND MEDICAL

Years in Which Premiums were Earned and Claims were Incurred	1 Premiums Earned	2 Claim Payments	3 Claim Adjustment Expense Payments	4 Percent (Col. 3/2)	5 Claim and Claim Adjustment Expense Payments (Col. 2 + 3)	6 Percent (Col. 5/1)	7 Claims Unpaid	8 Unpaid Claim Adjustment Expenses	9 Total Claims and Claims Adjustment Expense Incurred (Col. 5 + 7 + 8)	10 Percent (Col. 9/1)
1. 2002.....	1,180,716	1,042,698	11,429	1.1	1,054,127	89.3			1,054,127	89.3
2. 2003.....	1,240,028	996,180	61,567	6.2	1,057,747	85.3	60		1,057,807	85.3
3. 2004.....	1,277,304	991,416	77,434	7.8	1,068,850	83.7	1,029	9	1,069,888	83.8
4. 2005.....	1,303,830	1,044,104	63,544	6.1	1,107,648	85.0	14,056	817	1,122,521	86.1
5. 2006.....	1,388,526	982,025	52,596	5.4	1,034,621	74.5	227,378	4,275	1,266,274	91.2

UNDERWRITING AND INVESTMENT EXHIBIT
PART 2C - DEVELOPMENT OF PAID AND INCURRED CLAIMS
(000 Omitted)

SECTION A - PAID HEALTH CLAIMS - MEDICARE SUPPLEMENT

Year in Which Losses Were Incurred	Cumulative Net Amounts Paid				
	1 2002	2 2003	3 2004	4 2005	5 2006
1. Prior.....	6,228	6,690	6,682	6,675	6,671
2. 2002.....	56,542	65,169	65,377	65,398	65,390
3. 2003.....	XXX	52,785	61,506	61,696	61,574
4. 2004.....	XXX	XXX	57,255	64,307	64,491
5. 2005.....	XXX	XXX	XXX	63,240	72,418
6. 2006.....	XXX	XXX	XXX	XXX	65,567

SECTION B - INCURRED HEALTH CLAIMS - MEDICARE SUPPLEMENT

Year in Which Losses Were Incurred	Sum of Cumulative Net Amount Paid and Claim Liability, Claim Reserve and Medical Incentive Pool and Bonuses Outstanding at End of Year				
	1 2002	2 2003	3 2004	4 2005	5 2006
1. Prior.....	6,559	6,764	6,682	6,675	6,671
2. 2002.....	63,857	65,566	65,389	65,398	65,390
3. 2003.....	XXX	62,447	61,770	61,698	61,574
4. 2004.....	XXX	XXX	66,294	64,436	64,511
5. 2005.....	XXX	XXX	XXX	72,651	72,777
6. 2006.....	XXX	XXX	XXX	XXX	77,401

SECTION C - INCURRED YEAR HEALTH CLAIM AND CLAIM ADJUSTMENT EXPENSE RATIO - MEDICARE SUPPLEMENT

Years in Which Premiums were Earned and Claims were Incurred	1 Premiums Earned	2 Claim Payments	3 Claim Adjustment Expense Payments	4 Percent (Col. 3/2)	5 Claim and Claim Adjustment Expense Payments (Col. 2 + 3)	6 Percent (Col. 5/1)	7 Claims Unpaid	8 Unpaid Claim Adjustment Expenses	9 Total Claims and Claims Adjustment Expense Incurred (Col. 5 + 7 + 8)	10 Percent (Col. 9/1)
1. 2002.....	63,326	65,390	684	1.0	66,074	104.3			66,074	104.3
2. 2003.....	73,775	61,574	3,827	6.2	65,401	88.6			65,401	88.6
3. 2004.....	77,503	64,491	4,752	7.4	69,243	89.3	19		69,262	89.4
4. 2005.....	83,083	72,418	4,324	6.0	76,742	92.4	360	49	77,151	92.9
5. 2006.....	86,073	65,567	3,437	5.2	69,004	80.2	11,834	279	81,117	94.2

U & I Ex.-Pt.2C-Sn A-Paid Claims-Dental
NONE

U & I Ex.-Pt.2C-Sn B-Incurred Claims-Dental
NONE

U & I Ex.-Pt.2C-Sn C-Expense Ratio-Dental
NONE

U & I Ex.-Pt.2C-Sn A-Paid Claims-Vision
NONE

U & I Ex.-Pt.2C-Sn B-Incurred Claims-Vision
NONE

U & I Ex.-Pt.2C-Sn C-Expense Ratio-Vision
NONE

UNDERWRITING AND INVESTMENT EXHIBIT
PART 2C - DEVELOPMENT OF PAID AND INCURRED CLAIMS
(000 Omitted)

SECTION A - PAID HEALTH CLAIMS - FEDERAL EMPLOYEES HEALTH BENEFITS PLAN PREMIUM

Year in Which Losses Were Incurred	Cumulative Net Amounts Paid				
	1 2002	2 2003	3 2004	4 2005	5 2006
1. Prior.....	8,237	8,486	8,527	8,534	8,534
2. 2002.....	37,630	45,114	45,191	45,219	45,219
3. 2003.....	XXX	31,737	37,010	37,034	37,044
4. 2004.....	XXX	XXX	30,413	36,112	36,250
5. 2005.....	XXX	XXX	XXX	37,254	43,112
6. 2006.....	XXX	XXX	XXX	XXX	41,947

SECTION B - INCURRED HEALTH CLAIMS - FEDERAL EMPLOYEES HEALTH BENEFITS PLAN PREMIUM

Year in Which Losses Were Incurred	Sum of Cumulative Net Amount Paid and Claim Liability, Claim Reserve and Medical Incentive Pool and Bonuses Outstanding at End of Year				
	1 2002	2 2003	3 2004	4 2005	5 2006
1. Prior.....	9,494	8,515	8,529	8,534	8,534
2. 2002.....	43,494	45,828	45,214	45,224	45,219
3. 2003.....	XXX	38,586	37,391	37,049	37,047
4. 2004.....	XXX	XXX	38,181	36,908	36,301
5. 2005.....	XXX	XXX	XXX	45,443	43,706
6. 2006.....	XXX	XXX	XXX	XXX	50,808

SECTION C - INCURRED YEAR HEALTH CLAIM AND CLAIM ADJUSTMENT EXPENSE RATIO - FEDERAL EMPLOYEES HEALTH BENEFITS PLAN PREMIUM

Years in Which Premiums were Earned and Claims were Incurred	1 Premiums Earned	2 Claim Payments	3 Claim Adjustment Expense Payments	4 Percent (Col. 3/2)	5 Claim and Claim Adjustment Expense Payments (Col. 2 + 3)	6 Percent (Col. 5/1)	7 Claims Unpaid	8 Unpaid Claim Adjustment Expenses	9 Total Claims and Claims Adjustment Expense Incurred (Col. 5 + 7 + 8)	10 Percent (Col. 9/1)
1. 2002.....	46,482	45,219	504	1.1	45,723	98.4			45,723	98.4
2. 2003.....	45,708	37,044	2,270	6.1	39,314	86.0	3		39,317	86.0
3. 2004.....	44,200	36,250	2,864	7.9	39,114	88.5	52		39,166	88.6
4. 2005.....	50,981	43,112	2,624	6.1	45,736	89.7	595	21	46,352	90.9
5. 2006.....	54,145	41,947	2,201	5.2	44,148	81.5	8,861	189	53,198	98.3

UNDERWRITING AND INVESTMENT EXHIBIT
PART 2C - DEVELOPMENT OF PAID AND INCURRED CLAIMS
(000 Omitted)

SECTION A - PAID HEALTH CLAIMS - TITLE XVIII - MEDICARE

Year in Which Losses Were Incurred	Cumulative Net Amounts Paid				
	1 2002	2 2003	3 2004	4 2005	5 2006
1. Prior.....	25,147	25,525	25,525	25,525	25,525
2. 2002.....					
3. 2003.....	.XXX				
4. 2004.....	.XXX	.XXX			
5. 2005.....	.XXX	.XXX	.XXX		
6. 2006.....	.XXX	.XXX	.XXX	.XXX	28,275

SECTION B - INCURRED HEALTH CLAIMS - TITLE XVIII - MEDICARE

Year in Which Losses Were Incurred	Sum of Cumulative Net Amount Paid and Claim Liability, Claim Reserve and Medical Incentive Pool and Bonuses Outstanding at End of Year				
	1 2002	2 2003	3 2004	4 2005	5 2006
1. Prior.....	25,525	25,525	25,525	25,525	25,525
2. 2002.....					
3. 2003.....	.XXX				
4. 2004.....	.XXX	.XXX			
5. 2005.....	.XXX	.XXX	.XXX		
6. 2006.....	.XXX	.XXX	.XXX	.XXX	35,437

SECTION C - INCURRED YEAR HEALTH CLAIM AND CLAIM ADJUSTMENT EXPENSE RATIO - TITLE XVIII - MEDICARE

Years in Which Premiums were Earned and Claims were Incurred	1 Premiums Earned	2 Claim Payments	3 Claim Adjustment Expense Payments	4 Percent (Col. 3/2)	5 Claim and Claim Adjustment Expense Payments (Col. 2 + 3)	6 Percent (Col. 5/1)	7 Claims Unpaid	8 Unpaid Claim Adjustment Expenses	9 Total Claims and Claims Adjustment Expense Incurred (Col. 5 + 7 + 8)	10 Percent (Col. 9/1)
1. 2002.....				0.0	0	0.0			0	0.0
2. 2003.....				0.0	0	0.0			0	0.0
3. 2004.....				0.0	0	0.0			0	0.0
4. 2005.....				0.0	0	0.0			0	0.0
5. 2006.....	36,716	28,275	1,725	6.1	30,000	81.7	7,162	140	37,302	101.6

UNDERWRITING AND INVESTMENT EXHIBIT
PART 2C - DEVELOPMENT OF PAID AND INCURRED CLAIMS
(000 Omitted)

SECTION A - PAID HEALTH CLAIMS - TITLE XIX - MEDICAID

Year in Which Losses Were Incurred	Cumulative Net Amounts Paid				
	1 2002	2 2003	3 2004	4 2005	5 2006
1. Prior.....	55	149	149	149	149
2. 2002.....					
3. 2003.....	XXX				
4. 2004.....	XXX	XXX			
5. 2005.....	XXX	XXX	XXX		
6. 2006.....	XXX	XXX	XXX	XXX	

SECTION B - INCURRED HEALTH CLAIMS - TITLE XIX - MEDICAID

Year in Which Losses Were Incurred	Sum of Cumulative Net Amount Paid and Claim Liability, Claim Reserve and Medical Incentive Pool and Bonuses Outstanding at End of Year				
	1 2002	2 2003	3 2004	4 2005	5 2006
1. Prior.....	55	149	149	149	149
2. 2002.....					
3. 2003.....	XXX				
4. 2004.....	XXX	XXX			
5. 2005.....	XXX	XXX	XXX		
6. 2006.....	XXX	XXX	XXX	XXX	

SECTION C - INCURRED YEAR HEALTH CLAIM AND CLAIM ADJUSTMENT EXPENSE RATIO - TITLE XIX - MEDICAID

Years in Which Premiums were Earned and Claims were Incurred	1 Premiums Earned	2 Claim Payments	3 Claim Adjustment Expense Payments	4 Percent (Col. 3/2)	5 Claim and Claim Adjustment Expense Payments (Col. 2 + 3)	6 Percent (Col. 5/1)	7 Claims Unpaid	8 Unpaid Claim Adjustment Expenses	9 Total Claims and Claims Adjustment Expense Incurred (Col. 5 + 7 + 8)	10 Percent (Col. 9/1)
1. 2002.....				0.0	0	0.0			0	0.0
2. 2003.....				0.0	0	0.0			0	0.0
3. 2004.....				0.0	0	0.0			0	0.0
4. 2005.....				0.0	0	0.0			0	0.0
5. 2006.....				0.0	0	0.0			0	0.0

NONE

UNDERWRITING AND INVESTMENT EXHIBIT
PART 2C - DEVELOPMENT OF PAID AND INCURRED CLAIMS
(000 Omitted)

SECTION A - PAID HEALTH CLAIMS - OTHER

Year in Which Losses Were Incurred	Cumulative Net Amounts Paid				
	1 2002	2 2003	3 2004	4 2005	5 2006
1. Prior.....					
2. 2002.....	.54	.54	.54	.54	.54
3. 2003.....	.XXX	.66	.66	.66	.66
4. 2004.....	.XXX	.XXX	.35	.35	.35
5. 2005.....	.XXX	.XXX	.XXX	.30	.30
6. 2006.....	.XXX	.XXX	.XXX	.XXX	.31

SECTION B - INCURRED HEALTH CLAIMS - OTHER

Year in Which Losses Were Incurred	Sum of Cumulative Net Amount Paid and Claim Liability, Claim Reserve and Medical Incentive Pool and Bonuses Outstanding at End of Year				
	1 2002	2 2003	3 2004	4 2005	5 2006
1. Prior.....					
2. 2002.....	.54	.54	.54	.54	.54
3. 2003.....	.XXX	.66	.66	.66	.35
4. 2004.....	.XXX	.XXX	.35	.35	.35
5. 2005.....	.XXX	.XXX	.XXX	.30	.30
6. 2006.....	.XXX	.XXX	.XXX	.XXX	.31

SECTION C - INCURRED YEAR HEALTH CLAIM AND CLAIM ADJUSTMENT EXPENSE RATIO - OTHER

Years in Which Premiums were Earned and Claims were Incurred	1 Premiums Earned	2 Claim Payments	3 Claim Adjustment Expense Payments	4 Percent (Col. 3/2)	5 Claim and Claim Adjustment Expense Payments (Col. 2 + 3)	6 Percent (Col. 5/1)	7 Claims Unpaid	8 Unpaid Claim Adjustment Expenses	9 Total Claims and Claims Adjustment Expense Incurred (Col. 5 + 7 + 8)	10 Percent (Col. 9/1)
1. 2002.....		.54		.0.0	.54	.0.0			.54	.0.0
2. 2003.....		.66		.0.0	.66	.0.0			.66	.0.0
3. 2004.....		.35		.0.0	.35	.0.0			.35	.0.0
4. 2005.....		.30		.0.0	.30	.0.0			.30	.0.0
5. 2006.....		.31		.0.0	.31	.0.0			.31	.0.0

UNDERWRITING AND INVESTMENT EXHIBIT
PART 2D - AGGREGATE RESERVE FOR ACCIDENT AND HEALTH CONTRACTS ONLY

	1	2	3	4	5	6	7	8	9	10	11	12
	Total	Comprehensive (Hospital and Medical)	Medicare Supplement	Dental Only	Vision Only	Federal Employees Health Benefit Plan	Title XVIII Medicare	Title XIX Medicaid	Stop Loss	Disability Income	Long-Term Care	Other
POLICY RESERVE												
1. Unearned premium reserves.....	2,304,394	2,304,394										
2. Additional policy reserves (a).....	0											
3. Reserve for future contingent benefits.....	0											
4. Reserve for rate credits or experience rating refunds (including \$.00) for investment income.....	2,651,542					1,863,773	787,769					
5. Aggregate write-ins for other policy reserves.....	0	0	0	0	0	0	0	0	0	0	0	0
6. Totals (gross).....	4,955,936	2,304,394	0	0	0	1,863,773	787,769	0	0	0	0	0
7. Reinsurance ceded.....	0											
8. Totals (net) (Page 3, Line 4).....	4,955,936	2,304,394	0	0	0	1,863,773	787,769	0	0	0	0	0
CLAIM RESERVE												
9. Present value of amounts not yet due on claims.....	0											
10. Reserve for future contingent benefits.....	0											
11. Aggregate write-ins for other claim reserves.....	0	0	0	0	0	0	0	0	0	0	0	0
12. Totals (gross).....	0	0	0	0	0	0	0	0	0	0	0	0
13. Reinsurance ceded.....	0											
14. Totals (net) (Page 3, Line 7).....	0	0	0	0	0	0	0	0	0	0	0	0
DETAILS OF WRITE-INS												
0501.	0											
0502.	0											
0503.	0											
0598. Summary of remaining write-ins for Line 5 from overflow page.....	0	0	0	0	0	0	0	0	0	0	0	0
0599. Totals (Lines 0501 thru 0503 plus 0598) (Line 5 above).....	0	0	0	0	0	0	0	0	0	0	0	0
1101.	0											
1102.	0											
1103.	0											
1198. Summary of remaining write-ins for Line 11 from overflow page.....	0	0	0	0	0	0	0	0	0	0	0	0
1199. Totals (Lines 1101 thru 1103 plus 1198) (Line 11 above).....	0	0	0	0	0	0	0	0	0	0	0	0

(a) Includes \$.00 premium deficiency reserve.

UNDERWRITING AND INVESTMENT EXHIBIT

PART 3 - ANALYSIS OF EXPENSES

	Claim Adjustment Expenses		3 General Administrative Expenses	4 Investment Expenses	5 Total
	1 Cost Containment Expenses	2 Other Claim Adjustment Expenses			
1. Rent (\$.....0 for occupancy of own building).....	1,249,819	754,591	2,443,628	4,578	4,452,616
2. Salaries, wages and other benefits.....	28,464,347	13,029,402	63,248,767	95,349	104,837,865
3. Commissions (less \$.....0 ceded plus \$.....0 assumed).....			34,880,898		34,880,898
4. Legal fees and expenses.....			38,939		38,939
5. Certifications and accreditation fees.....	21,190				21,190
6. Auditing, actuarial and other consulting services.....	551,238	926	3,100,083	5,206	3,657,453
7. Traveling expenses.....	612,347	97,186	1,623,590	2,881	2,336,004
8. Marketing and advertising.....	40,186		2,438,980		2,479,166
9. Postage, express and telephone.....	101,355	8,988	2,837,756	691	2,948,790
10. Printing and office supplies.....	651,536	111,775	3,353,414	587	4,117,312
11. Occupancy, depreciation and amortization.....	689,175	406,279	1,833,961	5,837	2,935,252
12. Equipment.....	111,059	67,844	231,452		410,355
13. Cost or depreciation of EDP equipment and software.....	2,180,581	171,644	13,088,769	23,266	15,464,260
14. Outsourced services including EDP, claims, and other services.....	17,543,435	4,252,826	19,181,135	14,047	40,991,443
15. Boards, bureaus and association fees.....	186,067	4,681	977,897	231	1,168,876
16. Insurance, except on real estate.....	5,472	3,617	568,992		578,081
17. Collection and bank service charges.....			165,707		165,707
18. Group service and administration fees.....					0
19. Reimbursements by uninsured plans.....					0
20. Reimbursements from fiscal intermediaries.....					0
21. Real estate expenses.....					0
22. Real estate taxes.....					0
23. Taxes, licenses and fees:					
23.1 State and local insurance taxes.....			26,457		26,457
23.2 State premium taxes.....					0
23.3 Regulator authority licenses and fees.....			230,407		230,407
23.4 Payroll taxes.....	1,487,328	744,432	3,318,516		5,550,276
23.5 Other (excluding federal income and real estate taxes).....					0
24. Investment expenses not included elsewhere.....					0
25. Aggregate write-ins for expenses.....	(1,526,352)	(41,872)	(982,318)	0	(2,550,542)
26. Total expenses incurred (Lines 1 to 25).....	52,368,783	19,612,319	152,607,030	152,673	(a)....224,740,805
27. Less expenses unpaid December 31, current year.....	4,204,186	1,574,484	35,091,127		40,869,797
28. Add expenses unpaid December 31, prior year.....	3,579,119	1,331,972	33,364,805		38,275,896
29. Amounts receivable relating to uninsured plans, prior year.....					0
30. Amounts receivable relating to uninsured plans, current year.....					0
31. Total expenses paid (Lines 26 minus 27 plus 28 minus 29 plus 30).....	51,743,716	19,369,807	150,880,708	152,673	222,146,904

DETAILS OF WRITE-INS

2501. Other Expenses.....	594,997	29,659	304,223		928,879
2502. Recoveries.....	(2,121,349)	(71,531)	(1,286,541)		(3,479,421)
2503.					0
2598. Summary of remaining write-ins for Line 25 from overflow page.....	0	0	0	0	0
2599. TOTALS (Lines 2501 thru 2503 plus 2598) (Line 25 above).....	(1,526,352)	(41,872)	(982,318)	0	(2,550,542)

(a) Includes management fees of \$....29,096,411 to affiliates and \$.....0 to non-affiliates.

EXHIBIT OF NET INVESTMENT INCOME

	1 Collected During Year	2 Earned During Year
1. U.S. government bonds.....	(a).....(569)	.....25,197
1.1 Bonds exempt from U.S. tax.....	(a).....	.....
1.2 Other bonds (unaffiliated).....	(a).....9,609,593	.....8,594,059
1.3 Bonds of affiliates.....	(a).....	.....
2.1 Preferred stocks (unaffiliated).....	(b).....	.....
2.11 Preferred stocks of affiliates.....	(b).....	.....
2.2 Common stocks (unaffiliated).....	.....203,080	.....193,487
2.21 Common stocks of affiliates.....	.....	.....
3. Mortgage loans.....	(c).....	.....
4. Real estate.....	(d).....	.....
5. Contract loans.....	.....	.....
6. Cash, cash equivalents and short-term investments.....	(e).....23,525,476	.....24,155,092
7. Derivative instruments.....	(f).....	.....
8. Other invested assets.....	.....	.....
9. Aggregate write-ins for investment income.....	.....0	.....0
10. Total gross investment income.....	.....33,337,580	.....32,967,835
11. Investment expenses.....	.....	(g).....152,673
12. Investment taxes, licenses and fees, excluding federal income taxes.....	.....	(g).....
13. Interest expense.....	.....	(h).....
14. Depreciation on real estate and other invested assets.....	.....	(i).....0
15. Aggregate write-ins for deductions from investment income.....	.....	.....0
16. Total deductions (Lines 11 through 15).....	.....	.....152,673
17. Net investment income (Line 10 minus Line 16).....	.....	.....32,815,162

DETAILS OF WRITE-INS

0901. ....	.....	.....
0902. ....	.....	.....
0903. ....	.....	.....
0998. Summary of remaining write-ins for Line 9 from overflow page.....	.....0	.....0
0999. Totals (Lines 0901 thru 0903 plus 0998) (Line 9 above).....	.....0	.....0
1501. ....	.....	.....
1502. ....	.....	.....
1503. ....	.....	.....
1598. Summary of remaining write-ins for Line 15 from overflow page.....	.....	.....0
1599. Totals (Lines 1501 thru 1503 plus 1598) (Line 15 above).....	.....	.....0
(a) Includes \$.....121,483 accrual of discount less \$.....250,651 amortization of premium and less \$.....2,118,633 paid for accrued interest on purchases.	.....	.....
(b) Includes \$.....0 accrual of discount less \$.....0 amortization of premium and less \$.....0 paid for accrued dividends on purchases.	.....	.....
(c) Includes \$.....0 accrual of discount less \$.....0 amortization of premium and less \$.....0 paid for accrued interest on purchases.	.....	.....
(d) Includes \$.....0 for company's occupancy of its own buildings; and excludes \$.....0 interest on encumbrances.	.....	.....
(e) Includes \$.....2,387,608 accrual of discount less \$.....2,294,771 amortization of premium and less \$.....5,187,013 paid for accrued interest on purchases.	.....	.....
(f) Includes \$.....0 accrual of discount less \$.....0 amortization of premium.	.....	.....
(g) Includes \$.....0 investment expenses and \$.....0 investment taxes, licenses and fees, excluding federal income taxes, attributable to Segregated and Separate Accounts.	.....	.....
(h) Includes \$.....0 interest on surplus notes and \$.....0 interest on capital notes.	.....	.....
(i) Includes \$.....0 depreciation on real estate and \$.....0 depreciation on other invested assets.	.....	.....

EXHIBIT OF CAPITAL GAINS (LOSSES)

	1 Realized Gain (Loss) on Sales or Maturity	2 Other Realized Adjustments	3 Unrealized Increases (Decreases) by Adjustment	4 Total
1. U.S. government bonds.....	.....(185,173)	.....	.....	.....(185,173)
1.1 Bonds exempt from U.S. tax.....	.....	.....	.....	.....0
1.2 Other bonds (unaffiliated).....	.....(217,735)	.....	.....	.....(217,735)
1.3 Bonds of affiliates.....	.....	.....	.....	.....0
2.1 Preferred stocks (unaffiliated).....	.....	.....	.....	.....0
2.11 Preferred stocks of affiliates.....	.....	.....	.....	.....0
2.2 Common stocks (unaffiliated).....	.....68,394	.....	.....27,821	.....96,215
2.21 Common stocks of affiliates.....	.....	.....	.....(51,783)	.....(51,783)
3. Mortgage loans.....	.....	.....	.....	.....0
4. Real estate.....	.....	.....	.....	.....0
5. Contract loans.....	.....	.....	.....	.....0
6. Cash, cash equivalents and short-term investments.....	.....(662,349)	.....	.....	.....(662,349)
7. Derivative instruments.....	.....	.....	.....	.....0
8. Other invested assets.....	.....	.....	.....9,946,029	.....9,946,029
9. Aggregate write-ins for capital gains (losses).....	.....0	.....0	.....0	.....0
10. Total capital gains (losses).....	.....(996,863)	.....0	.....9,922,067	.....8,925,204

DETAILS OF WRITE-INS

0901. ....	.....	.....	.....	.....0
0902. ....	.....	.....	.....	.....0
0903. ....	.....	.....	.....	.....0
0998. Summary of remaining write-ins for Line 9 from overflow page.....	.....0	.....0	.....0	.....0
0999. Totals (Lines 0901 thru 0903 plus 0998) (Line 9 above).....	.....0	.....0	.....0	.....0

EXHIBIT OF NONADMITTED ASSETS

	1 Current Year Total Nonadmitted Assets	2 Prior Year Total Nonadmitted Assets	3 Change in Total Nonadmitted Assets (Col. 2 - Col. 1)
1. Bonds (Schedule D).....			.....0
2. Stocks (Schedule D):			
2.1 Preferred stocks.....			.....0
2.2 Common stocks.....	117,864,424		.....(117,864,424)
3. Mortgage loans on real estate (Schedule B):			
3.1 First liens.....			.....0
3.2 Other than first liens.....			.....0
4. Real estate (Schedule A):			
4.1 Properties occupied by the company.....			.....0
4.2 Properties held for the production of income.....			.....0
4.3 Properties held for sale.....			.....0
5. Cash (Schedule E-Part 1), cash equivalents (Schedule E-Part 2) and short-term investments (Schedule DA).....			.....0
6. Contract loans.....			.....0
7. Other invested assets (Schedule BA).....			.....0
8. Receivables for securities.....			.....0
9. Aggregate write-ins for invested assets.....	.....0	.....0	.....0
10. Subtotals, cash and invested assets (Lines 1 to 9).....	117,864,424	.....0	.....(117,864,424)
11. Title plants (for Title insurers only).....			.....0
12. Investment income due and accrued.....			.....0
13. Premiums and considerations:			
13.1 Uncollected premiums and agents' balances in the course of collection.....	195,217	42,883	.....(152,334)
13.2 Deferred premiums, agents' balances and installments booked but deferred and not yet due.....			.....0
13.3 Accrued retrospective premiums.....			.....0
14. Reinsurance:			
14.1 Amounts recoverable from reinsurers.....			.....0
14.2 Funds held by or deposited with reinsured companies.....			.....0
14.3 Other amounts receivable under reinsurance contracts.....			.....0
15. Amounts receivable relating to uninsured plans.....			.....0
16.1 Current federal and foreign income tax recoverable and interest thereon.....			.....0
16.2 Net deferred tax asset.....			.....0
17. Guaranty funds receivable or on deposit.....			.....0
18. Electronic data processing equipment and software.....	3,195,220	1,653,662	.....(1,541,558)
19. Furniture and equipment, including health care delivery assets.....	5,528,384	5,177,519	.....(350,865)
20. Net adjustment in assets and liabilities due to foreign exchange rates.....			.....0
21. Receivable from parent, subsidiaries and affiliates.....	16,423	66,955	.....50,532
22. Health care and other amounts receivable.....	2,096,631	797,514	.....(1,299,117)
23. Aggregate write-ins for other than invested assets.....	3,198,625	1,308,732	.....(1,889,893)
24. Total assets excluding Separate Accounts, Segregated Accounts and Protected Cell Accounts (Lines 10 through 23).....	132,094,924	9,047,265	.....(123,047,659)
25. From Separate Accounts, Segregated Accounts and Protected Cell Accounts.....			.....0
26. TOTALS (Lines 24 and 25).....	132,094,924	9,047,265	.....(123,047,659)

DETAILS OF WRITE-INS

0901. ....			.....0
0902. ....			.....0
0903. ....			.....0
0998. Summary of remaining write-ins for Line 9 from overflow page.....	.....0	.....0	.....0
0999. Totals (Lines 0901 thru 0903 plus 0998) (Line 9 above).....	.....0	.....0	.....0
2301. Due from University of Michigan.....	1,893,195		.....(1,893,195)
2302. Prepaid expenses.....	1,299,646	527,405	.....(772,241)
2303. Prepaid Pension.....		778,940	.....778,940
2398. Summary of remaining write-ins for Line 23 from overflow page.....	5,784	2,387	.....(3,397)
2399. Totals (Lines 2301 thru 2303 plus 2398) (Line 23 above).....	3,198,625	1,308,732	.....(1,889,893)

EXHIBIT 1 - ENROLLMENT BY PRODUCT TYPE FOR HEALTH BUSINESS ONLY

Source of Enrollment	Total Members at End of					6 Current Year Member Months
	1 Prior Year	2 First Quarter	3 Second Quarter	4 Third Quarter	5 Current Year	
1. Health maintenance organizations.....	452,163	460,284	473,738	476,410	482,998	5,622,483
2. Provider service organizations.....						
3. Preferred provider organizations.....						
4. Point of service.....						
5. Indemnity only.....						
6. Aggregate write-ins for other lines of business.....	0	0	0	0	0	0
7. Total.....	452,163	460,284	473,738	476,410	482,998	5,622,483

DETAILS OF WRITE-INS

0601.						
0602.						
0603.						
0698. Summary of remaining write-ins for Line 6 from overflow page.....	0	0	0	0	0	0
0699. Totals (Lines 0601 thru 0603 plus 0698) (Line 6 above).....	0	0	0	0	0	0

NOTES TO FINANCIAL STATEMENTS

1. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

A. Accounting Practices

The financial statements of Blue Care Network of Michigan (“BCN”) are presented on the basis of accounting practices prescribed or permitted by the Michigan Office of Financial and Insurance Services (“OFIS”).

OFIS recognizes only statutory accounting practices prescribed or permitted by the State of Michigan for determining and reporting the financial condition and results of operations of an insurance company. The National Association of Insurance Commissioner’s (NAIC) *Accounting Practices and Procedures Manual*, (NAIC SAP) has been adopted as a component of prescribed or permitted practices by the state of Michigan. As of December 2006 and 2005, respectively, BCN had no permitted practices. The state has adopted certain prescribed accounting practices that differ from those found in NAIC SAP. First, OFIS is phasing in SSAP No 19, *Furniture, Fixtures and Equipment; Leasehold Improvements Paid by the Reporting Entity as Lessee; Depreciation of Property and Amortization of Leasehold Improvements*, BCN has admitted 0% and 25% of the book value of furniture and equipment and leasehold improvements for years ending December 31, for 2006 and 2005, respectively. In NAIC SAP, furniture and equipment and leasehold improvements are 100% non-admitted. Secondly, amounts receivable from parent, subsidiaries and affiliates (PSA) over 90 days past due are non-admitted by BCN. In NAIC SAP, amounts due from PSAs are admitted regardless of aging.

A reconciliation of BCN’s net income and capital and surplus between NAIC SAP and practices prescribed and permitted by the State of Michigan is shown below:

	2006	2005
Net Income, Michigan basis	\$ 28,389,203	\$ 78,396,434
State Prescribed Practices:		
None	-	-
State Permitted Practices:		
None	-	-
Net Income, NAIC SAP basis	\$ 28,389,203	\$ 78,396,434
Statutory Capital and Surplus, Michigan basis	\$ 228,286,525	\$ 313,022,914
State Prescribed Practices:		
Phase in of SSAP No 19	-	(1,725,840)
Amounts receivable from PSA	16,423	66,955
State Permitted Practices:		
None	-	-
Statutory Capital and Surplus, NAIC SAP basis	\$ 228,302,948	\$ 311,364,029

B. Use of Estimates in the Preparation of the Financial Statements

The preparation of financial statements, in conformity with Statutory Accounting Principles, requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosures of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

C. Accounting Policy

BCN uses the following accounting policies:

- (1) Short-term investments are stated at amortized cost.
- (2) Bonds not backed by other loans are stated at amortized cost using the scientific interest method.
- (3) Common Stocks are stated at NAIC market value.
- (4) Preferred Stocks – NOT APPLICABLE
- (5) Mortgage loans on real estate – NOT APPLICABLE
- (6) BCN loan-backed securities are stated at amortized cost. Premiums and discounts on loan-backed securities and structured securities are amortized using the retrospective method based on anticipated prepayments at the date of purchase. Prepayment assumptions are obtained from broker dealer survey values or internal estimates. Changes in estimated cash flows from the original purchase assumptions are accounted for using the retrospective method.
- (7) BCN records its investment in certain affiliated grantor trusts as other invested assets using the adjusted

NOTES TO FINANCIAL STATEMENTS

audited GAAP equity method and reports the increase or decrease in the investment as a change in unrealized gain or loss for capital and surplus.

BCN records its investment, starting on December 1, 2006, in BCN Service Company, a wholly owned subsidiary, using the audited GAAP equity method and reports the increase or decrease in the investment as a change in unrealized gain or loss for capital and surplus.

BCN records its investment in M-CARE, a wholly owned subsidiary licensed as a Health Maintenance Organization (HMO) by the State of Michigan, using the audited Statutory equity method and reports the increase or decrease in the investment as a change in unrealized gain or loss for capital and surplus. The carrying value of M-CARE includes \$33,550,884 of admitted goodwill.

(8) Investments in joint ventures, partnerships and limited liability companies – NOT APPLICABLE

(9) Derivatives – NOT APPLICABLE

(10) At December 31, 2006, BCN was not required to record a premium deficiency reserve. If the need to record such a reserve arises, BCN would use anticipated investment income as a factor in the premium deficiency calculation.

(11) Claims Unpaid – The claims unpaid liability for incurred but unpaid and unreported hospital and medical claims is accrued in the period during which the services are provided, and includes actuarial estimates of services performed which have not been reported by providers to BCN. Such estimates are based on historical claims experience modified for current trends and changes in benefits provided. Revisions in actuarial estimates are reported in the period in which they arise. BCN has reinsured certain of its claims liabilities through an affiliated self-insured trust. Processing expense related to claims is accrued based on an estimate of expenses to process such claims.

(12) At December 31, 2006, BCN had no change in its capitalization policy from the prior period.

(13) Pharmaceutical rebate receivables are estimated based on historical rebate trends and membership.

2. Accounting Changes and Corrections of Errors

Pension and other postretirement benefits

During the 1st Quarter of 2005, BCN's management determined that BCN was directly liable for the pension and other postretirement benefit plans, even though Blue Cross Blue Shield of Michigan (BCBSM) acts as the administrator for those plans. Accordingly, for the 1st Quarter of 2005, BCN's statutory financial statements were adjusted to exclude non-vested employees and to account for the additional minimum pension liability, the immediate recognition of the initial transition obligation for postretirement benefits and incremental pension liability in accordance with SSAP No. 89, Accounting for Pensions and SSAP No. 14, Postretirement Benefits Other than Pensions. This change in 2005, was reported as a correction back to January 1, 2003 for the initial implementation of codification and resulted in an increase in surplus of \$12,587,972 for postretirement benefits and a decrease in surplus of \$2,825,654 for pension. Following guidance in SSAP No. 3, Accounting Changes and Corrections of Errors Paragraph 10, BCN included this change as a write-in on page 5, line 47 aggregate write-ins for gains or (losses) in surplus.

Capital stock

In preparing the 2005 annual statement, BCN's management determined that even though total capital and surplus were reported correctly, certain amounts on the individual lines, common capital stock and gross paid in and contributed surplus, were not reflected appropriately between the two lines. There was no impact to total capital and surplus for 2005 or any prior year.

Prior period premium revenue allowance

In 2005, BCN made an adjustment to increase capital and surplus by \$590,689 to eliminate the effect of a GAAP allowance off-setting premium revenue which was created in a prior period.

3. Business Combinations and Goodwill –

A) Statutory Purchase Method

BCN Service Company

1. On December 1, 2006, BCN purchased all the common stock in BCN Service Company from an affiliated entity, Blue Care of Michigan, Inc. (BCMI). BCN Service Company had been a wholly owned subsidiary of BCMI. BCN Service Company is a third party administrator (TPA) licensed by OFIS.
2. BCN accounted for the purchase transaction using the statutory purchase method as defined in SSAP No. 68, Business Combinations and Goodwill, with BCN Service Company becoming a wholly owned

NOTES TO FINANCIAL STATEMENTS

subsidiary of BCN.

3.

The cost of the BCN Service Company acquisition totaled \$41,077 which was the statutory book value of BCN Service Company as of November 30, 2006, with BCMI receiving cash in exchange for all common shares in BCN Service Company. There was no goodwill associated with the purchase.
4.

The Company did not recognize any goodwill amortization relating to the acquisition of BCN Service Company at December 31, 2006.

M-CARE and M-CAID

1.

On December 31, 2006, BCN purchased M-CARE and its wholly-owned subsidiary, M-CAID, from The Regents of The University of Michigan (The Regents). Both M-CAID and M-CARE are HMOs licensed by the State of Michigan. M-CARE offers managed healthcare services to the employees of the University and other employers of Southeastern Michigan. M-CAID, formed in 2003 to separate Medicaid HMO operations and financing from M-CARE, offers Medicaid HMO services to members in two counties and certain zip codes in a third county in Southeast Michigan. Once the transaction was completed on December 31, 2006, M-CARE became a wholly-owned subsidiary of BCN with M-CAID remaining a wholly-owned subsidiary of M-CARE.
2.

BCN accounted for the purchase transaction using the statutory purchase method as defined in SSAP No. 68, Business Combinations and Goodwill.
3.

The cost of the M-CARE and M-CAID acquisition was an aggregate purchase price of \$228,884,639, subject to a final purchase price adjustment. The purchase resulted in goodwill of \$151,415,309 which will be amortized over 10 years.
4.

BCN did not recognize any goodwill amortization relating to the acquisition of M-CARE and M-CAID as of December 31, 2006.

B) Statutory Merger – NOT APPLICABLE

C) Assumption Reinsurance – NOT APPLICABLE

D) Impairment Loss

BCN did not recognize an impairment loss relating to the acquisition of BCN Service Company, M-CARE or M-CAID.

4. Discontinued Operations – NOT APPLICABLE

5. Investments

A. Mortgage Loans – NOT APPLICABLE

B. Debt Restructuring – NOT APPLICABLE

C. Reverse Mortgages – NOT APPLICABLE

D. Loan-Backed Securities

- a.

BCN loan-backed securities are stated at amortized cost. Premiums and discounts on loan-backed securities and structured securities are amortized using the retrospective method based on anticipated prepayments at the date of purchase. Prepayment assumptions are obtained from broker dealer survey values or internal estimates. Changes in estimated cash flows from the original purchase assumptions are accounted for using the retrospective method.

E. Repurchase Agreements – NOT APPLICABLE

F. Real Estate – NOT APPLICABLE

G. Investments in low-income housing tax credits (LIHTC) – NOT APPLICABLE

6. Joint Ventures, Partnerships and Limited Liability Companies – NOT APPLICABLE.

7. Investment Income

BCN had no non-admitted accrued investment income as of December 31, 2006 and 2005, respectively. BCN excludes from surplus any due and accrued income that is over 90 days past due.

8. Derivative Instruments – NOT APPLICABLE

9. Income Taxes - BCN has been recognized by the Internal Revenue Service under Internal Revenue Code

NOTES TO FINANCIAL STATEMENTS

Section 501(c)(4) as an organization exempt from tax under Section 501(a). In 2006 and 2005, BCN recorded \$31,541 and \$51,816, respectively, in federal income tax expense on unrelated business income.

10. Information Concerning Parent, Subsidiaries and Affiliates

BCN is a nonprofit stock corporation, a wholly owned subsidiary of BCBSM and licensed as an Health Maintenance Organization (HMO) by the State of Michigan. BCN operates as a combination staff and network model health maintenance organization. BCN provides health care services to subscribers at its own outpatient health facilities and through contracts it has entered into with various physician groups, hospitals and other health care providers.

As referred to in Note 3, Business Combinations and Goodwill, BCN purchased BCN Service Company on December 1, 2006 and M-CARE on December 31, 2006. M-CAID remains a wholly owned subsidiary of M-CARE.

BCN conducts business transactions with BCBSM and affiliates on a routine basis. All related party receivable and payable balances are classified as either amounts due to or from parent, subsidiaries and affiliates, except for reinsurance ceded and claims unpaid.

Claims Processing - Claims Processing - BCBSM processes and pays some hospital, hearing, and professional claims on behalf of BCN. BCN reimburses BCBSM at agreed upon rates for claims and pays an administrative fee for each claim processed by BCBSM. BCBSM billed BCN \$472,112,598 and \$399,901,512 in 2006 and 2005, respectively, for such claims. BCBSM charged BCN \$331,907 and \$401,796 at December 31, 2006 and 2005, respectively, for certain claims processing. BCN owed BCBSM for claims processing \$56,571 and \$142,166 at December 31, 2006 and 2005, respectively. BCN owed BCBSM \$41,188,204 and \$27,981,780 for claims billed at December 31, 2006 and 2005, respectively.

BCN shares in a combined BCBSM and BCN claims settlement process for certain hospitals. BCN billed BCBSM \$5,436,549 and \$7,516,129 in 2006 and 2005, respectively, for claim settlements. Claim settlements owed to BCN from BCBSM were \$5,409,452 and \$4,317,831 as of December 31, 2006 and 2005, respectively.

Administrative Cost Allocation - BCBSM provides and bills BCN for miscellaneous administrative support, including computer operations support. BCBSM purchases services on behalf of BCN such as telephone services and bills BCN accordingly. BCBSM also makes payments on behalf of BCN for expenses, such as agent fees, and bills BCN for payment. BCBSM billed BCN \$70,068,856 and \$72,526,123 for 2006 and 2005, respectively. BCN owed BCBSM \$13,248,844 and \$14,072,219 at December 31, 2006 and 2005, respectively.

Administrative support fees paid to affiliates were allocated to the statutory administrative expense categories of cost containment, claims adjustment, general administrative and investment expenses, based on the affiliates statutory administrative expense categories. These statutory administrative expense categories were further allocated to detailed expense accounts based on the affiliate’s expense detail.

Blue Care Network Medical Malpractice Self-Insurance Trust - BCN has an agreement with an affiliated grantor trust to provide malpractice coverage. There were no premium expenses related to the malpractice trust in 2006 and 2005.

BCN’s investment in the Trust is determined using the adjusted audited GAAP equity method and was 97.58% and 97.62% at December 31, 2006 and 2005, respectively. As of December 31, 2006 and 2005, BCN’s investment in the trust, reported as an other invested asset, was \$53,606,080 and \$47,096,466, respectively.

BCN provides and bills the Trust for miscellaneous administrative support. Miscellaneous administrative expenses reimbursed from the Trust totaled \$14,400 in 2006 and 2005. BCN also makes payments on behalf of the Trust for certain other miscellaneous administrative expenses and bills the Trust for payment. BCN billed the Trust \$21,833 and \$19,429 for 2006 and 2005, respectively. The Trust owed BCN \$0 at December 31, 2006 and 2005. The Trust owed BCN \$14,721 and \$0 for 2006 and 2005, respectively, relating to claims.

BCN performs a test of “significance of an investment to the reporting entity’s financial position and results of operations”, as required by SSAP No. 88, Investments in Subsidiary, Controlled, and Affiliated Entities, A Replacement of SSAP No. 46. BCN’s carrying value of its investment in the Trust does not exceed 10% of BCN’s total admitted assets.

Blue Care Network Stop-Loss and Casualty Self-Insurance Trust – BCN has an agreement with an affiliated grantor trust to provide stop-loss coverage and reduced deductibles for property, general liability, automobile, and fidelity insurance coverages. The stop-loss trust covers risks incurred in excess of a retention amount. BCN is responsible for inpatient hospital claims up to \$150,000 per member each calendar year (the “deductible”) and has an agreement with the affiliated trust to cover the claims incurred over the deductible.

At December 31, 2006 and 2005, BCN had receivables for known stop-loss coverage recoveries on paid claims of \$0, from the stop-loss trust. In addition, at December 31, 2006 and 2005, BCN recorded as a reduction to claims unpaid, \$7,857,452 and \$10,767,789, respectively, of estimated recoverable amounts for potential claims exceeding the deductible based on actuarial estimates using historical recovery trends. BCN owed the stop-loss

NOTES TO FINANCIAL STATEMENTS

trust \$0 at December 31, 2006 and 2005 for premiums.

BCN's investment in the Trust is determined using the adjusted audited GAAP equity method and was 99.46% and 99.38% at December 31, 2006 and 2005, respectively. As of December 31, 2006 and 2005, BCN's investment in the trust, reported as an other invested asset, was \$12,348,760 and \$8,912,345, respectively.

Stop-loss coverage expenses amounted to \$8,023,048 and \$3,436,577 in 2006 and 2005, respectively. Stop-loss coverage recoveries recorded from the stop-loss trust totaled \$5,912,905 and \$2,527,658 in 2006 and 2005, respectively.

BCN provides and bills the Trust for miscellaneous administrative support. Miscellaneous administrative expenses reimbursed from the Trust totaled \$14,400 in 2006 and 2005. BCN also makes payments on behalf of the Trust for certain other miscellaneous administrative expenses and bills the Trust for payment. BCN billed the Trust \$21,833 and \$19,429 for 2006 and 2005, respectively. The Trust owed BCN \$0 at December 31, 2006 and 2005.

BCN performs a test of "significance of an investment to the reporting entity's financial position and results of operations", as required by SSAP No. 88, Investments in Subsidiary, Controlled, and Affiliated Entities, A Replacement of SSAP No. 46. BCN's carrying value of its investment in the Trust does not exceed 10% of BCN's total admitted assets.

Health Insurance - BCN purchases health insurance coverage for certain of its employees from BCBSM. Expenses were \$7,176,574 and \$7,066,859 in 2006 and 2005, respectively. BCN owed BCBSM \$0 at December 31, 2006 and 2005. Additionally, BCBSM purchases health insurance for certain of its employees from BCN. The amounts billed by BCN for such insurance were \$13,262,334 and \$12,048,292 in 2006 and 2005, respectively. BCBSM owed BCN \$0 at December 31, 2006 and 2005.

The Accident Fund Insurance Company of America ("AFC"), a wholly owned subsidiary of BCBSM, also purchases health insurance for certain of its employees from BCN. The amounts billed by BCN for such insurance were \$1,791,729 and \$1,254,292 in 2006 and 2005, respectively. AFC owed BCN \$0 at December 31, 2006 and 2005.

Workers' Compensation – BCN purchases workers' compensation insurance from the AFC. Amounts billed by the AFC were \$187,674 and \$207,915 for the years ended December 31, 2006 and 2005, respectively. BCN owed the AFC \$0 at December 31, 2006 and 2005.

Capitated Health Care Program - BCN participated in the "Personal Plus" program, a capitated health care program sponsored by an affiliated company, Blue Care of Michigan, Inc. ("BCMI"). BCN receives monthly capitation from BCMI for subscribers in the BCN coverage area. BCN is responsible for collecting premiums, on behalf of BCMI, and is at risk for all medical claims. Revenue derived through the Personal Plus program reported as risk revenue, was \$3,745,605 and \$3,445,133 in 2006 and 2005, respectively. Administrative expenses billed by BCN to BCMI in 2006 and 2005 were \$439,379 and \$457,920, respectively. BCN owed BCMI \$67,461 and \$62,759 at December 31, 2006 and 2005, respectively. BCMI owed BCN \$0 and \$344 at December 31, 2006 and 2005, respectively.

Point of Service/Blue Preferred Plus - BCN provides BCBSM with miscellaneous administrative support for certain products offered by BCBSM. BCBSM bears all risk associated with these products. Miscellaneous administrative expense incurred by BCN and subject to reimbursement from BCBSM related to these products totaled \$2,498,832 and \$5,025,374 in 2006 and 2005, respectively. BCBSM owed BCN \$0 and \$1,471,888 at December 31, 2006 and 2005, respectively.

Blue Care of Michigan, Inc. - BCN provided and billed BCMI for miscellaneous administrative support. Miscellaneous administrative expenses incurred by BCN and reimbursed from BCMI totaled \$83,208 and \$80,000 in 2006 and 2005, respectively. BCN also provided and billed BCMI for certain administrative support related to the "Personal Dental" program. Amounts billed to BCMI were \$5,891 and \$2,108 in 2006 and 2005, respectively. BCN also makes payments on behalf of BCMI for certain other miscellaneous administrative expenses and bills BCMI for payment. BCN billed BCMI \$41,614 and \$23,748 for 2006 and 2005, respectively. BCMI owed BCN \$587 and \$530 at December 31, 2006 and 2005, respectively.

BCBSM Foundation – BCN provides and bills the BCBSM Foundation for miscellaneous administrative support. Miscellaneous administrative expenses incurred by BCN and reimbursed from the BCBSM Foundation totaled \$12,000 for 2006 and 2005 respectively. BCN also makes payments on behalf of the Foundation for certain other miscellaneous administrative expenses and bills the Foundation for payment. BCN billed the Foundation \$16,940 and \$15,111 for 2006 and 2005, respectively. The Foundation owed BCN \$0 and \$11,660 at December 31, 2006 and 2005, respectively.

BCN Service Company – As detailed in Note 3 – Business Combinations and Goodwill – BCN purchased all outstanding stock of BCN Service Company at December 1, 2006. BCN Service Company is a TPA licensed to do business in the State of Michigan. BCN records this investment using the audited GAAP equity method. At December 31, 2006, BCN's investment in the BCN Service Company was \$289,294. BCN also makes payments

NOTES TO FINANCIAL STATEMENTS

on behalf of BCN Service Company for certain other miscellaneous administrative expenses and bills BCN Service Company for payment. BCN billed BCN Service Company \$51,518 and \$0 for 2006 and 2005, respectively.

During 2006, BCN’s management authorized and paid \$300,000 as an additional investment in BCN Service Company, a wholly owned subsidiary. This paid-in-capital is reflected in the carrying value of BCN’s investment in subsidiary and is shown in Schedule D part 2, section 2.

M-CARE - As detailed in Note 3 – Business Combinations and Goodwill, - BCN purchased M-CARE and its wholly-owned subsidiary, M-CAID, from The Regents of The University of Michigan (The Regents) on December 31, 2006. BCN accounted for the purchase transaction using the statutory purchase method as defined in SSAP No. 68, Business Combinations and Goodwill. At December 31, 2006, BCN’s investment in M-CARE and M-CAID was \$228,884,639. The purchase resulted in goodwill of \$151,415,309 which will be amortized over 10 years. BCN made a purchase on behalf of M-CARE for certain miscellaneous administrative expenses and billed M-CARE for payment. M-CARE owed BCN \$96,800 at December 31, 2006.

BCN does not guarantee or undertake for the benefit of an affiliate a material contingent exposure of BCN's or any affiliated insurer’s assets or liabilities.

BCN does not have management or service contracts or cost sharing arrangements, other than such arrangements described in these footnotes.

BCN does not own shares of an upstream intermediate or ultimate parent, either directly or indirectly via a downstream subsidiary, controlled or affiliated company.

BCBSM, BCN, BCMI, BCBSM Foundation, BCN Service Company, M-CARE, M-CAID, Michigan Health Insurance Company, and the Accident Fund Insurance Company of America have some common officers and board members on their respective governing boards.

11. Debt – NOT APPLICABLE
12. Retirement Plans, Deferred Compensation, Post-employment Benefits and Compensated Absences and Other Postretirement Benefit Plans

A. Defined Benefit Plan

As mentioned in note 2, BCN reported a correction in its 1st Quarter 2005 Quarterly Statement related to its pension and postretirement plans.

Substantially all employees of BCN, who meet certain requirements of age and length of service, are covered by defined benefit retirement plans administered by BCBSM. BCN’s policy is to fund accrued retirement costs, as determined by BCBSM’s consulting actuaries, to the extent permitted by Internal Revenue Service regulations.

The defined benefit retirement plans weighted-average target asset allocation and actual asset allocation at December 31, 2006 and 2005, by asset category are as follows:

Asset Category	Target	2006	2005
Equity securities	70.0 %	73.0 %	74.0 %
Debt securities / Fixed Income	25.0 %	25.0 %	24.1 %
Real estate	0.0 %	0.0 %	0.1 %
Other	<u>5.0 %</u>	<u>2.0 %</u>	<u>1.8 %</u>
Total	<u>100.0 %</u>	<u>100.0 %</u>	<u>100.0 %</u>

BCBSM has developed an asset allocation policy based on its objectives, characteristics of pension liabilities, capital market expectations and asset-liability projections. This policy is long-term oriented and consistent with BCBSM’s risk posture. BCBSM uses a mix of core and satellite managers to implement its asset allocation policy. BCBSM reviews on a periodic basis its asset mix and reallocates its portfolio at any time there is a material deviation in the asset class as described in the allocation policy. The policy includes a target allocation as included in the table above and a range of plus or minus 3 percent of the target established.

BCN provides certain postretirement health care benefits to substantially all employees that meet certain age and length of service requirements under a plan administered by BCBSM. This plan is “pay-as-you-go” and as such, has no asset allocations. Benefits are funded as incurred. These benefits are subject to revision at the discretion of the Board of Directors for nonrepresented employees and subject to collective bargaining agreements for represented employees.

Revisions to the nonrepresented and represented employees’ postretirement health care benefits took effect

NOTES TO FINANCIAL STATEMENTS

January 1, 2004 and January 1, 2006, respectively. Nonrepresented and represented employees retiring after December 31, 2003 and December 31, 2005, respectively, may share in the cost of their health care premiums and have higher deductibles and co-payments depending on their eligibility status. Nonrepresented and represented employees hired on or after January 1, 2004 and January 1, 2006, respectively, are required to have 15 years of service after age 45 to be eligible for retiree health care benefits and selected other benefits.

The plan is noncontributory for represented employees and contributions of \$10,170 and \$6,891 have been made by nonrepresented employees for 2006 and 2005, respectively.

Non-Qualified Plans - Retirement benefits are provided for a group of key employees under non-qualified defined benefit pension plans. The general purpose of the plans is to provide additional retirement benefits to participants who are subject to the contribution and benefit limitations contained in the Internal Revenue Code. Benefits under the plans are unfunded and paid out of general assets of BCN.

A summary of assets, obligations and assumptions of the pension and other postretirement benefit plans at the plan’s measurement dates of September 30, 2006 and 2005, and as allocated to BCN from BCBSM, are as follows at December 31, 2006 and 2005:

	Pension Benefits		Postretirement Benefits	
	2006	2005	2006	2005
Change in benefit obligation:				
Benefits obligation—beginning of year	\$ 101,266,856	\$ 82,954,008	\$ 55,793,393	\$ 45,637,360
Service cost	7,598,119	5,665,951	3,527,895	2,523,505
Interest cost	5,735,082	5,261,472	3,358,295	3,124,162
Amendments	786,780	0	(408,726)	0
Actuarial loss (gain)	(2,450,676)	10,813,340	3,488,635	7,017,169
Benefits paid	<u>(4,456,216)</u>	<u>(3,427,915)</u>	<u>(3,044,747)</u>	<u>(2,508,803)</u>
Benefits obligation—end of year	<u>\$ 108,479,945</u>	<u>\$ 101,266,856</u>	<u>\$ 62,714,745</u>	<u>\$ 55,793,393</u>
	Pension Benefits		Postretirement Benefits	
	2006	2005	2006	2005
Change in plan assets:				
Fair value of plan assets—beginning of year	\$ 97,465,203	\$ 85,734,485	\$	\$
Actual return on plan assets	10,221,277	14,739,820		
Employer contribution	152,000	305,000		
Benefits paid	<u>(4,342,403)</u>	<u>(3,314,102)</u>		
Fair value of plan assets—end of year	<u>\$ 103,496,077</u>	<u>\$ 97,465,203</u>	<u>\$</u>	<u>\$</u>
	Pension Benefits		Postretirement Benefits	
	2006	2005	2006	2005
Funded Status:				
Funded status - (underfunded) funded	\$ (4,983,867)	\$ (3,801,653)	\$ (62,714,745)	\$ (55,793,393)
Unamortized prior service cost	\$ 784,805		\$ (2,139,128)	(2,032,620)
Unrecognized net (gain) loss	(6,658,000)	(1,921,606)	20,755,254	18,226,453
Additional liability	(168,090)	(147,377)		
Contribution between measurement date and fiscal year end	<u>28,453</u>	<u>28,453</u>		
Accrued liabilities	<u>\$ (10,996,699)</u>	<u>\$ (5,842,183)</u>	<u>\$ (44,098,619)</u>	<u>\$ (39,599,560)</u>
Amounts recognized in the statement of admitted assets, liabilities, capital and surplus - statutory basis consist of:				
Accrued pension expense included in other liabilities	\$ (10,996,699)	\$ (6,621,122)	\$ -	\$ -
Less: Prepaid nonadmitted assets		778,939	-	-
Net accrued liability	<u>\$ (10,996,699)</u>	<u>\$ (5,842,183)</u>	<u>\$</u>	<u>\$</u>

The accumulated benefit obligation for all defined benefit pension plans was \$97,609,086 and \$91,486,415 at September 30, 2006 and 2005, respectively.

NOTES TO FINANCIAL STATEMENTS

	Pension Benefits		Postretirement Benefits	
	2006	2005	2006	2005
Benefit obligation for non vested employees	\$ 1,625,863	\$ 3,402,614	\$ 23,804,874	\$ 23,677,031

Information for pension plans with an accumulated benefit obligation in excess of plan assets as of December 31, 2006 and 2005, is as follows:

	2006	2005
Projected benefit obligation	\$ 32,672,508	\$ 28,997,669
Accumulated benefit obligation	\$ 25,852,361	\$ 23,197,228
Fair Value of plan assets	\$ 25,938,200	\$ 23,940,255

	Pension Benefits		Postretirement Benefits	
	2006	2005	2006	2005
Components of net periodic benefit cost:				
Service Cost	\$ 7,598,119	\$ 5,665,951	\$ 3,527,895	\$ 2,523,505
Interest Cost	5,735,082	5,261,472	3,358,295	3,124,162
Expected return on plan assets	(7,921,052)	(7,720,118)		
Amortization of unrecognized (gain) loss	(14,508)	(22,177)	959,833	933,640
Amount of prior service cost recognized	1,975		(302,217)	(268,014)
Total net periodic benefit cost	<u>\$ 5,399,616</u>	<u>\$ 3,185,128</u>	<u>\$ 7,543,806</u>	<u>\$ 6,313,293</u>

The weighted-average assumptions as of December 31, 2006 and 2005 are as follows:

	2006	2005	2006	2005
Discount rate	5.90 %	5.60 %	6.00 %	5.75 %
Rate of compensation increase	4.75 %	4.75%	N/A	N/A
Expected long-term rate of return on plan assets	9.00 %	9.00 %	N/A	N/A

For 2007, the expected long-term rate of return on assets will be 9%.

For 2006 measurement purposes, the health care trend rate on covered postretirement benefits is assumed to be 8.14% for 2007, ratably decreasing to 5% by 2015 and all years thereafter.

Assumed health care cost trend rates have a significant effect on the amounts reported for the health care plans. A one-percentage-point change in assumed health care cost trend rates would have the following effects:

	1 Percentage Point Increase	1 Percentage Point Decrease
Effect on total of service and interest cost components	\$ 1,533,450	\$ 1,213,727
Effect on postretirement benefit obligation	\$ 13,667,494	\$ 11,081,356

On December 8, 2003, the Medicare Prescription Drug, Improvement and Modernization Act of 2003 (“Act”) was signed into law. The Act provides a prescription drug benefit under Medicare (Medicare Part D) as well as a federal subsidy to sponsors of retiree health care benefit plans that provide a benefit that is at least equivalent to the Medicare Part D benefit. In 2004, BCN adopted Financial Standards Board Staff Position 106-2, *Accounting and Disclosure Requirements Related to the Medicare Prescription Drug, Improvement and Modernization Act of 2003*. BCN determined that the prescription drug benefits provided by postretirement health care plans administered by BCBSM are actuarially equivalent to the Medicare Part D and accordingly, entitles BCN to the federal subsidy described in the Act.

At the September 30, 2004 measurement date, the reduction in the accumulated postretirement benefit obligation (“APBO”) due to the anticipated subsidies related to benefits attributable to past service amounted to \$5,824,000. The reduction in the APBO related to the subsidies will be accounted for under the plan as an actuarial experience gain, which will reduce net periodic postretirement costs in future periods.

NOTES TO FINANCIAL STATEMENTS

At December 31, 2006, the gross benefit payments expected to be paid and subsidies anticipated to be received by BCN are as follows:

Years Ending December 31,	Pension Benefits	Postretirement Benefits	
	Future Benefit Payments	Future Benefit Payments	Anticipated Future Subsidies
2007	\$ 4,340,000	\$ 3,730,000	\$ 150,000
2008	5,100,000	3,900,000	190,000
2009	5,550,000	4,130,000	220,000
2010	5,850,000	4,370,000	250,000
2011	6,700,000	4,690,000	280,000
2012 through 2016	<u>42,710,000</u>	<u>28,310,000</u>	<u>2,150,000</u>
Total	<u>\$ 70,250,000</u>	<u>\$ 49,130,000</u>	<u>\$ 3,240,000</u>

At December 31, 2006, BCN expects to contribute \$500,000 to its defined benefit pension plans in 2007.

Deferred Compensation Plan - BCN has a deferred compensation benefit plan for a group of key employees and members of BCN’s Board of Directors. Under the plan, eligible participants may elect to defer to a future period a portion of salary or director fees that are earned and normally payable as services are rendered. Elections to defer compensation must be made prior to the beginning of the year in which the deferral is effective. Deferred amounts are unfunded and paid out of the general assets of BCN.

- B. Defined Contribution Plans** — Substantially all employees who have attained the age of 21 years and have completed three months of continuous service for represented employees or one year of service for non-represented employees may elect to participate in one of two employee savings plans administered by BCBSM, which are qualified under Section 401(k) of the Internal Revenue Code. Participating employees may elect to contribute to the Plan and BCN matches a portion of the employees’ contributions. BCN’s contributions were \$2,233,981 and \$2,165,231 in 2006 and 2005, respectively.
- C. Multi-employer Plans** – NOT APPLICABLE.
- D. Consolidated/Holding Company Plans** – NOT APPLICABLE
- E. Post employment Benefits and Compensated Absences** – NOT APPLICABLE

13. Capital and Surplus, Shareholders’ Dividend Restrictions and Quasi-Reorganizations.

- (1) BCN has 500 shares authorized, 100 shares issued and 100 shares outstanding. All shares are one class – all common stock and have a par value of \$100 per share.
- (2) BCN has no preferred stock outstanding.
- (3) The Company’s Articles of Incorporation do not allow dividends.
- (4) The Company’s Articles of Incorporation state that no dividends shall be directly paid on any shares nor shall the shareholders be entitled to any portion of the earnings derived through increment of value upon its property or otherwise incidentally made.
- (5) There were no restrictions placed on the BCN’s surplus, including for whom the surplus is being held.
- (6) The total amount of advances to surplus not repaid – NOT APPLICABLE
- (7) The amount of stock held by BCN for special purposes – NOT APPLICABLE
- (8) Special surplus funds changes – NOT APPLICABLE
- (9) The portion of unassigned funds (surplus) represented or reduced by cumulative unrealized gains and losses was an unrealized gain of \$9,922,067 as of December 31, 2006.
- (10) Surplus debentures of similar obligations – NOT APPLICABLE
- (11) Impact of any restatement due to quasi-reorganization – NOT APPLICABLE

NOTES TO FINANCIAL STATEMENTS

(12) Effective dates of all quasi-reorganizations in the prior 10 years is/are – NOT APPLICABLE

14. Contingencies

- A. Contingent Commitments – NOT APPLICABLE
- B. Assessments – NOT APPLICABLE
- C. Gain Contingencies – NOT APPLICABLE
- D. All Other Contingencies

BCN and its affiliated physicians are parties to lawsuits incidental to the operations of the BCN. Management believes that the ultimate disposition of such contingencies will not have a material effect on the accompanying financial statements.

15. Leases

Lessee Operating Lease

(1) Lessees leasing arrangements

BCN has entered into certain cancelable land and building leases with BCBSM. Rent expense paid to BCBSM in 2006 and 2005 was \$1,885,395 and \$2,172,586, respectively.

BCN also leases office buildings under operating leases with different unrelated parties. Rent expense under these leases was \$2,966,393 and \$2,864,848 in 2006 and 2005, respectively.

BCN had the option to purchase its headquarters building. BCN did not exercise the 2005 option to purchase. The purchase price increases by 3% per year thereafter through the first 5 years of the lease. If the decision to purchase the building occurs after the first 5 years, BCN shall attempt to negotiate a reasonable price. BCN also has the option at the expiration of the lease at June 30, 2015, to extend the lease for 3 terms of 5 years each with prior written notice.

(2) Noncancelable leases

(a) At December 31, 2006, the minimum aggregate rental commitments are as follows:

Year Ending December 31	Operating Leases
2007	3,492,696
2008	3,497,696
2009	3,436,449
2010	3,515,674
2011	3,605,820
Total	\$ 17,548,335

(b) Non-cancelable subleases – NOT APPLICABLE

(3) Sales-leaseback transactions – NOT APPLICABLE

B. Lessor Leases – NOT APPLICABLE

16. Information About Financial Instruments With Off-Balance Sheet Risk and Financial Instruments With Concentrations of Credit Risk – NOT APPLICABLE

17. Sale, Transfer and Servicing of Financial Assets and Extinguishments of Liabilities

BCN, in the normal course of business, enters into security lending agreements with various other counterparties. Under these agreements, BCN lends U.S. government and corporate securities in exchange for collateral consisting primarily of cash, approximating 102% of the value of the securities loaned. The collateral pledged from counterparties is not available for BCN’s general use and therefore is restricted. These agreements are primarily overnight in nature and settled the next business day. At December 31, 2006, and 2005, BCN had securities loaned of \$21,932,828 and \$46,524,758, respectively, and corresponding collateral of \$22,404,188 and \$48,012,923, respectively.

18. Gain or Loss to the Reporting Entity from Uninsured A&H Plans and the Uninsured Portion of Partially Insured Plans –

A. ASO Plans – NOT APPLICABLE

NOTES TO FINANCIAL STATEMENTS

B. ASC Plans – NOT APPLICABLE

C. Medicare or Other Similarly Structured Cost Based Reimbursement Contract

1. Revenue from BCN’s Medicare Part D cost based reimbursement portion of the contract for the year 2006, consisted of \$997,737 for reinsurance subsidy and \$469,485 for low-income cost sharing subsidy.
2. As of December 31, 2006, BCN had recorded receivables from the following payors whose account balances are greater than 10% of BCN’s amounts receivable from uninsured accident and health plans or \$10,000:

CMS \$0

3. In connection with BCN’s Medicare D cost based reimbursement portion of the contract, BCN has recorded allowances and reserves for adjustment of recorded revenues in the amount of \$178,146 at December 31, 2006.
4. BCN has made no adjustment to revenue resulting from audit of receivables related to revenues recorded in the prior period.

19. Direct Premium Written/Produced by Managing General Agents/Third Party Administrators – NOT APPLICABLE

20. September 11 Events – NOT APPLICABLE

21. Other Items

- A. Extraordinary Items – NOT APPLICABLE
- B. Troubled Debt Restructuring – NOT APPLICABLE
- C. Other Disclosures

Statutory Deposit - As a condition of licensure with the State of Michigan, BCN is required to maintain a minimum deposit of \$1,000,000 in a segregated account. These funds can only be used by BCN at the direction of the Insurance Commissioner of the State of Michigan. The funds are invested in an exempt Money Market Mutual Fund. Interest on these funds accrues to BCN.

Industry Concentration - BCN primarily conducts business within the State of Michigan, and a significant portion of BCN’s customer base is concentrated in companies that are part of the automobile manufacturing industry. Receivables from these customers approximate \$0 and \$11,143,074 at December 31, 2006 and 2005, respectively. BCN held no investments in these customers’ commercial paper, medium term notes, and other asset backed securities totaling at December 31, 2006 and 2005.

- D. Other Disclosures, Uncollectible Assets on Uninsured plans – NOT APPLICABLE
- E. Business Interruption Insurance Recoveries – NOT APPLICABLE
- F. Hybrid Securities – NOT APPLICABLE
- G. State Transferable Tax Credits – NOT APPLICABLE
- H. Impact of Medicare Modernization Act on Postretirement Benefits (INT 04-17) Fully disclosed in Note 12.

22. Events Subsequent – NOT APPLICABLE

23. Reinsurance

A. Ceded Reinsurance Report

Effective January 1, 2005, at the request of OFIS, BCN started accounting for its transactions with the Stop-Loss Trust as if it were ceded reinsurance in compliance with the NAIC annual statement instructions and SSAP No. 61. Life, Deposit-Type and Accident and Health Reinsurance.

Section 1 – General Interrogatories

1. Are any of the reinsurers, listed in Schedule S as non-affiliated, owned in excess of 10% or controlled, either directly or indirectly, by the company or by any representative, officer, trustee, or director of the company?

Yes () No (X)

NOTES TO FINANCIAL STATEMENTS

If yes, give full details.

2. Have any policies issued by the company been reinsured with a company chartered in a country other than the United States (excluding U.S. Branches of such companies) that is owned in excess of 10% or controlled directly or indirectly by an insured, a beneficiary, a creditor or an insured or any other person not primarily engaged in the insurance business?

Yes() No (X)

If yes, give full details.

Section 2 – Ceded Reinsurance Report – Part A

1. Does the company have any reinsurance agreements in effect under which the reinsurer may unilaterally cancel any reinsurance for reasons other than for nonpayment of premium or other similar credit?

Yes () No (X)

a.) If yes, what is the estimated amount of the aggregate reduction in surplus of a unilateral cancellation by the reinsurer as of the date of this statement, for those agreements in which cancellation results in a net obligation of the reporting entity to the reinsurer, and for which such obligation is not presently accrued? Where necessary, the reporting entity may consider the current or anticipated experience of the business reinsured in making this estimate. NOT APPLICABLE

b.) What is the total amount of reinsurance credits taken, whether as an asset or as a reduction of liability for these agreements in this statement? NOT APPLICABLE

2. Does the reporting entity have any reinsurance agreements in effect such that the amount of losses paid or accrued through the statement date may result in a payment to the reinsurer of amounts that, in aggregate and allowing for offset of mutual credits from other reinsurance agreements with the same reinsurer, exceed the total direct premium collected under the reinsured policies?

Yes () No (X)

If yes, give full details.

Section 3 – Ceded Reinsurance Report – Part B

1. What is the estimated amount of the aggregate reduction in surplus, (for agreements other than those under which the reinsurer may unilaterally cancel for reasons other than for nonpayment of payment or other similar credits that are reflected in Section 2 above) of termination of ALL reinsurance agreements, by either party, as of the date of this statement? Where necessary, the company may consider the current or anticipated experience of the business reinsured in making this estimate. \$0

BCN participates in a plan of self-insurance.

2. Have any new agreements been executed or existing agreements amended, since January 1 of the year of this statement, to include policies or contracts that were in force or which had existing reserves established by the company as of the effective date of the agreement?

Yes () No (X)

If yes, what is the amount of reinsurance credits, whether an asset or a reduction of liability, taken for such new agreements or amendments? NOT APPLICABLE

B. Uncollectible Reinsurance

None

C. Commutation of Ceded Reinsurance

None

24. Retrospectively Rated Contracts and Contracts Subject to Redetermination

A. BCN estimates accrued redetermination premium adjustments and return premium adjustments for its group health insurance contracts subject to redetermination based on an examination of contract requirements in relation to the rates charged for similar sized subscriber groups and the status of past applicable audits.

BCN estimates accrued retrospective premium adjustments for its Medicare Advantage health insurance contracts based on the funds received from CMS for Medicare Part D designated as “Direct Subsidies”, “Low

NOTES TO FINANCIAL STATEMENTS

Income Subsidies (Premium Portion)", "Beneficiary Premium (Standard Coverage Portion)", "Part D Payment Demonstration" and "Risk Corridor Adjustment Payment", as well as any subsequent adjustments made by CMS. BCN started receiving these retrospective premiums with the start-up of the new BCN Advantage effective January 1, 2006. There were no retrospective premiums in 2005.

- B. Accrued redetermination premium adjustments and return premium adjustments as well as retrospective premiums are recorded as an adjustment to earned premium.
- C. The amount of net premiums written by BCN that are subject to redetermination or retrospective provisions was \$85,144,652 and \$ 51,381,805 for 2006 and 2005 respectively, representing approximately 5.4% and 3.6% of the total net premiums written for commercial health for 2006 and 2005. No other premiums written by BCN are subject to redetermination or retrospective provisions.
25. Change in Incurred Losses and Loss Adjustment Expenses - Activity in the liabilities for unpaid claims and claims adjustment expenses at December 31, 2006 and 2005, respectively is summarized as follows:

	Annual Statement	
	2006	2005
BALANCE—January 1	\$ 204,703,626	\$ 213,499,113
Incurred related to:		
Current year	1,403,048,016	1,230,726,002
Prior year	(23,327,128)	(32,298,168)
Total incurred	1,379,720,888	1,198,427,834
Paid related to:		
Current year	1,179,664,567	1,035,364,656
Prior year	176,485,662	171,858,665
Total paid	1,356,150,229	1,207,223,321
BALANCE—December 31	\$ 228,274,285	\$ 204,703,626
Balance at December 31:		
Liability for claims unpaid	\$ 222,495,615	\$ 199,792,535
Liability for unpaid claims adjustment expenses	5,778,670	4,911,091
Total	\$ 228,274,285	\$ 204,703,626

Changes in actuarial estimates of claims unpaid reported as "incurred related to prior year" in the schedule above reflect revisions in estimates of medical cost trends and changes in claims processing patterns.

26. Inter-company Pooling Arrangements – NOT APPLICABLE
27. Structured Settlements – NOT APPLICABLE
28. Health Care Receivables—

Healthcare receivables include pharmacy rebates BCN receives from a third party vendor. These rebates are calculated using estimates based on historical rebate trends and membership. Activity for the previous three years is summarized as follows:

NOTES TO FINANCIAL STATEMENTS

Quarter	(1) Estimated Pharmacy Rebates as Reported on Financial Statements	(2) Pharmacy Rebates as Billed or Otherwise Confirmed	(3) Actual Rebates Received Within 90 days of Billing	(4) Actual Rebates Received Within 91 to 180 Days of Billing	(5) Actual Rebates Received More Than 180 Days After Billing
12/31/2006	\$ 3,332,994	\$ -	\$ -	\$ -	\$ -
9/30/2006	4,086,121	3,244,103	-	-	-
6/30/2006	3,942,148	4,423,885	1,761,292	1,082,244	-
3/31/2006	3,904,473	4,009,886	2,138,191	2,150,582	1,580
12/31/2005	\$ 3,731,756	\$ 4,133,328	\$ 2,065,240	\$ 2,320,599	\$ 58,049
9/30/2005	3,448,830	3,939,571	1,081,710	2,959,436	478,725
6/30/2005	2,743,649	3,625,214	3,097,529	979,607	114,400
3/31/2005	2,733,535	3,573,321	1,471,256	1,882,274	1,221
12/31/2004	\$ 2,605,722	\$ 3,735,358	\$ 1,891,844	\$ 1,970,892	\$ 1,270,859
9/30/2004	1,626,993	3,590,253	842,161	1,765,840	945,035
6/30/2004	1,734,577	3,500,175	934,193	3,442,319	-
3/31/2004	1,731,072	3,432,077	1,821,979	1,591,059	90,760

29. Participating Policies – NOT APPLICABLE

30. Premium Deficiency Reserves –

BCN was not required to record a premium deficiency reserve in 2006 or 2005. If the need to record such a reserve arises, BCN would use anticipated investment income as a factor in the premium deficiency calculation.

31. Anticipated Salvage and Subrogation – NOT APPLICABLE

SUMMARY INVESTMENT SCHEDULE

Investment Categories	Gross Investment Holdings		Admitted Assets as Reported in the Annual Statement	
	1 Amount	2 Percentage	3 Amount	4 Percentage
1. Bonds:				
1.1 U.S. treasury securities.....	1,001,372	0.1	1,001,372	0.2
1.2 U.S. government agency obligations (excluding mortgage-backed securities):				
1.21 Issued by U.S. government agencies.....		0.0		0.0
1.22 Issued by U.S. government sponsored agencies.....		0.0		0.0
1.3 Foreign government (including Canada, excluding mortgage-backed securities).....		0.0		0.0
1.4 Securities issued by states, territories and possessions and political subdivisions in the U.S.:				
1.41 States, territories and possessions general obligations.....		0.0		0.0
1.42 Political subdivisions of states, territories & possessions & political subdivisions general obligations.....		0.0		0.0
1.43 Revenue and assessment obligations.....		0.0		0.0
1.44 Industrial development and similar obligations.....		0.0		0.0
1.5 Mortgage-backed securities (includes residential and commercial MBS):				
1.51 Pass-through securities:				
1.511 Issued or guaranteed by GNMA.....		0.0		0.0
1.512 Issued or guaranteed by FNMA and FHLMC.....	37,972,099	5.2	37,972,099	6.1
1.513 All other.....	4,249,051	0.6	4,249,051	0.7
1.52 CMOs and REMICs:				
1.521 Issued or guaranteed by GNMA, FNMA, FHLMC or VA.....		0.0		0.0
1.522 Issued by non-U.S. Government issuers and collateralized by mortgage-backed securities issued or guaranteed by agencies shown in Line 1.521.....		0.0		0.0
1.523 All other.....		0.0		0.0
2. Other debt and other fixed income securities (excluding short-term):				
2.1 Unaffiliated domestic securities (includes credit tenant loans rated by the SVO).....		0.0		0.0
2.2 Unaffiliated foreign securities.....		0.0		0.0
2.3 Affiliated securities.....		0.0		0.0
3. Equity interests:				
3.1 Investments in mutual funds.....	1,815,790	0.2	1,815,790	0.3
3.2 Preferred stocks:				
3.21 Affiliated.....		0.0		0.0
3.22 Unaffiliated.....		0.0		0.0
3.3 Publicly traded equity securities (excluding preferred stocks):				
3.31 Affiliated.....		0.0		0.0
3.32 Unaffiliated.....		0.0		0.0
3.4 Other equity securities:				
3.41 Affiliated.....	229,173,932	31.1	111,309,509	18.0
3.42 Unaffiliated.....		0.0		0.0
3.5 Other equity interests including tangible personal property under lease:				
3.51 Affiliated.....		0.0		0.0
3.52 Unaffiliated.....		0.0		0.0
4. Mortgage loans:				
4.1 Construction and land development.....		0.0		0.0
4.2 Agricultural.....		0.0		0.0
4.3 Single family residential properties.....		0.0		0.0
4.4 Multifamily residential properties.....		0.0		0.0
4.5 Commercial loans.....		0.0		0.0
4.6 Mezzanine real estate loans.....		0.0		0.0
5. Real estate investments:				
5.1 Property occupied by company.....		0.0		0.0
5.2 Property held for production of income (including \$.....0 of property acquired in satisfaction of debt).....		0.0		0.0
5.3 Property held for sale (including \$.....0 property acquired in satisfaction of debt).....		0.0		0.0
6. Contract loans.....		0.0		0.0
7. Receivables for securities.....		0.0		0.0
8. Cash, cash equivalents and short-term investments.....	396,766,165	53.8	396,766,165	64.1
9. Other invested assets.....	65,954,840	8.9	65,954,840	10.7
10. Total invested assets.....	736,933,249	100.0	619,068,826	100.0

Blue Care Network of Michigan

GENERAL INTERROGATORIES

PART 1 - COMMON INTERROGATORIES

GENERAL

- | | | | | | | | | | | | | | | | | | |
|---------------------|---|------------------------|-----------------------------|------------------------|-----------|----------|-----------|----------|--|--|--|--|--|--|--|--|--|
| 1.1 | Is the reporting entity a member of an Insurance Holding Company System consisting of two or more affiliated persons, one or more of which is an insurer? | Yes [X] | No [] | | | | | | | | | | | | | | |
| 1.2 | If yes, did the reporting entity register and file with its domiciliary State Insurance Commissioner, Director or Superintendent or with such regulatory official of the state of domicile of the principal insurer in the Holding Company System, a registration statement providing disclosure substantially similar to the standards adopted by the National Association of Insurance Commissioners (NAIC) in its Model Insurance Holding Company System Regulatory Act and model regulations pertaining thereto, or is the reporting entity subject to standards and disclosure requirements substantially similar to those required by such Act and regulations? | Yes [X] | No [] N/A [] | | | | | | | | | | | | | | |
| 1.3 | State regulating? <u>Michigan</u> | | | | | | | | | | | | | | | | |
| 2.1 | Has any change been made during the year of this statement in the charter, by-laws, articles of incorporation, or deed of settlement of the reporting entity? | Yes [] | No [X] | | | | | | | | | | | | | | |
| 2.2 | If yes, date of change: _____ | | | | | | | | | | | | | | | | |
| 3.1 | State as of what date the latest financial examination of the reporting entity was made or is being made. | | 12/31/2003 | | | | | | | | | | | | | | |
| 3.2 | State the as of date that the latest financial examination report became available from either the state of domicile or the reporting entity. This date should be the date of the examined balance sheet and not the date the report was completed or released. | | 12/31/2003 | | | | | | | | | | | | | | |
| 3.3 | State as of what date the latest financial examination report became available to other states or the public from either the state of domicile or the reporting entity. This is the release date or completion date of the examination report and not the date of the examination (balance sheet date). | | 06/30/2005 | | | | | | | | | | | | | | |
| 3.4 | By what department or departments? <u>Office of Insurance and Financial Services</u> | | | | | | | | | | | | | | | | |
| 4.1 | During the period covered by this statement, did any agent, broker, sales representative, non-affiliated sales/service organization or any combination thereof under a common control (other than salaried employees of the reporting entity) receive credit or commissions for or control a substantial part (more than 20 percent of any major line of business measured on direct premiums) of: | | | | | | | | | | | | | | | | |
| | 4.11 sales of new business? | Yes [] | No [X] | | | | | | | | | | | | | | |
| | 4.12 renewals? | Yes [] | No [X] | | | | | | | | | | | | | | |
| 4.2 | During the period covered by this statement, did any sales/service organization owned in whole or in part by the reporting entity or an affiliate, receive credit or commissions for or control a substantial part (more than 20 percent of any major line of business measured on direct premiums) of: | | | | | | | | | | | | | | | | |
| | 4.21 sales of new business? | Yes [X] | No [] | | | | | | | | | | | | | | |
| | 4.22 renewals? | Yes [X] | No [] | | | | | | | | | | | | | | |
| 5.1 | Has the reporting entity been a party to a merger or consolidation during the period covered by this statement? | Yes [] | No [X] | | | | | | | | | | | | | | |
| 5.2 | If yes, provide the name of the entity, NAIC company code, and state of domicile (use two letter state abbreviation) for any entity that has ceased to exist as a result of the merger or consolidation. | | | | | | | | | | | | | | | | |
| | <table border="0" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 60%; text-align: center;">1
Name of Entity</td> <td style="width: 20%; text-align: center;">2
NAIC Co. Code</td> <td style="width: 20%; text-align: center;">3
State of Domicile</td> </tr> <tr> <td style="height: 20px;"></td> <td></td> <td></td> </tr> </table> | 1
Name of Entity | 2
NAIC Co. Code | 3
State of Domicile | | | | | | | | | | | | | |
| 1
Name of Entity | 2
NAIC Co. Code | 3
State of Domicile | | | | | | | | | | | | | | | |
| | | | | | | | | | | | | | | | | | |
| 6.1 | Has the reporting entity had any Certificates of Authority, licenses or registrations (including corporate registration, if applicable) suspended or revoked by any governmental entity during the reporting period? | Yes [] | No [X] | | | | | | | | | | | | | | |
| 6.2 | If yes, give full information: _____ | | | | | | | | | | | | | | | | |
| 7.1 | Does any foreign (non-United States) person or entity directly or indirectly control 10% or more of the reporting entity? | Yes [] | No [X] | | | | | | | | | | | | | | |
| 7.2 | If yes, | | | | | | | | | | | | | | | | |
| | 7.21 State the percentage of foreign control. | |% | | | | | | | | | | | | | | |
| | 7.22 State the nationality(ies) of the foreign person(s) or entity(ies); or if the entity is a mutual or reciprocal, the nationality of its manager or attorney-in-fact and identify the type of entity(ies) (e.g., individual, corporation, government, manager or attorney-in-fact) | | | | | | | | | | | | | | | | |
| | <table border="0" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 60%; text-align: center;">1
Nationality</td> <td style="width: 40%; text-align: center;">2
Type of Entity</td> </tr> <tr> <td style="height: 20px;"></td> <td></td> </tr> </table> | 1
Nationality | 2
Type of Entity | | | | | | | | | | | | | | |
| 1
Nationality | 2
Type of Entity | | | | | | | | | | | | | | | | |
| | | | | | | | | | | | | | | | | | |
| 8.1 | Is the company a subsidiary of a bank holding company regulated by the Federal Reserve Board? | Yes [] | No [X] | | | | | | | | | | | | | | |
| 8.2 | If response to 8.1 is yes, please identify the name of the bank holding company. _____ | | | | | | | | | | | | | | | | |
| 8.3 | Is the company affiliated with one or more banks, thrifts or securities firms? | Yes [] | No [X] | | | | | | | | | | | | | | |
| 8.4 | If response to 8.3 is yes, please provide the names and location (city and state of the main office) of any affiliates regulated by a federal financial regulatory services agency [i.e. the Federal Reserve Board (FRB), the Office of the Comptroller of the Currency (OCC), the Office of Thrift Supervision (OTS), the Federal Deposit Insurance Corporation (FDIC) and the Securities Exchange Commission (SEC)] and identify the affiliate's primary federal regulator. | | | | | | | | | | | | | | | | |
| | <table border="0" style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 16.6%; text-align: center;">1
Affiliate Name</td> <td style="width: 16.6%; text-align: center;">2
Location (City, State)</td> <td style="width: 16.6%; text-align: center;">3
FRB</td> <td style="width: 16.6%; text-align: center;">4
OCC</td> <td style="width: 16.6%; text-align: center;">5
OTS</td> <td style="width: 16.6%; text-align: center;">6
FDIC</td> <td style="width: 16.6%; text-align: center;">7
SEC</td> </tr> <tr> <td style="height: 20px;"></td> <td></td> <td></td> <td></td> <td></td> <td></td> <td></td> </tr> </table> | 1
Affiliate Name | 2
Location (City, State) | 3
FRB | 4
OCC | 5
OTS | 6
FDIC | 7
SEC | | | | | | | | | |
| 1
Affiliate Name | 2
Location (City, State) | 3
FRB | 4
OCC | 5
OTS | 6
FDIC | 7
SEC | | | | | | | | | | | |
| | | | | | | | | | | | | | | | | | |
| 9. | What is the name and address of the independent certified public accountant or accounting firm retained to conduct the annual audit?
Deloitte & Touche LLP 600 Renaissance Center Detroit, MI 48243-1895 | | | | | | | | | | | | | | | | |
| 10. | What is the name, address and affiliation (officer/employee of the reporting entity or actuary/consultant associated with an actuarial consulting firm) of the individual providing the statement of actuarial opinion/certification?
David R. Nelson, FSA MAAA Chief Actuarial Officer, Blue Care Network of Michigan 20500 Civic Center Drive MC C465 Southfield, Mi 48076 | | | | | | | | | | | | | | | | |
| 11.1 | Does the reporting entity own any securities of a real estate holding company or otherwise hold real estate indirectly? | Yes [] | No [X] | | | | | | | | | | | | | | |
| | 11.11 Name of real estate holding company _____ | | | | | | | | | | | | | | | | |
| | 11.12 Number of parcels involved _____ | | | | | | | | | | | | | | | | |
| | 11.13 Total book/adjusted carrying value _____ | | | | | | | | | | | | | | | | |
| 11.2 | If yes, provide explanation. _____ | | | | | | | | | | | | | | | | |

GENERAL INTERROGATORIES

PART 1 - COMMON INTERROGATORIES

12. FOR UNITED STATES BRANCHES OF ALIEN REPORTING ENTITIES ONLY:
- 12.1 What changes have been made during the year in the United States manager or the United States trustees of the reporting entity?

- 12.2 Does this statement contain all business transacted for the reporting entity through its United States Branch on risks wherever located?
- 12.3 Have there been any changes made to any of the trust indentures during the year?
- 12.4 If answer to (12.3) is yes, has the domiciliary or entry state approved the changes?
- Yes []
- Yes []
- No []
- No []
- N/A [X]

BOARD OF DIRECTORS

13. Is the purchase or sale of all investments of the reporting entity passed upon either by the Board of Directors or a subordinate committee thereof?
14. Does the reporting entity keep a complete permanent record of the proceedings of its Board of Directors and all subordinate committees thereof?
15. Has the reporting entity an established procedure for disclosure to its Board of Directors or trustees of any material interest or affiliation on the part of any of its officers, directors, trustees or responsible employees that is in conflict or is likely to conflict with the official duties of such person?
- Yes [X]
- No []
- Yes [X]
- No []
- Yes [X]
- No []

FINANCIAL

- 16.1 Total amount loaned during the year (inclusive of Separate Accounts, exclusive of policy loans):
- 16.11 To directors or other officers
- 16.12 To stockholders not officers
- 16.13 Trustees, supreme or grand (Fraternal only)
- 16.2 Total amount of loans outstanding at the end of year (inclusive of Separate Accounts, exclusive of policy loans):
- 16.21 To directors or other officers
- 16.22 To stockholders not officers
- 16.23 Trustees, supreme or grand (Fraternal only)
- 17.1 Were any assets reported in this statement subject to a contractual obligation to transfer to another party without the liability for such obligation being reported in the statement?
- 17.2 If yes, state the amount thereof at December 31 of the current year:
- 17.21 Rented from others
- 17.22 Borrowed from others
- 17.23 Leased from others
- 17.24 Other
- 18.1 Does this statement include payments for assessments as described in the Annual Statement Instructions other than guaranty fund or guaranty association assessments?
- 18.2 If answer is yes:
- 18.21 Amount paid as losses or risk adjustment
- 18.22 Amount paid as expenses
- 18.23 Other amounts paid
- 19.1 Does the reporting entity report any amounts due from parent, subsidiaries or affiliates on Page 2 of this statement?
- 19.2 If yes, indicate any amounts receivable from parent included in the Page 2 amount.
- \$.....0
- \$.....0
- \$.....0
- \$.....0
- \$.....0
- \$.....0
- \$.....0
- Yes []
- No [X]
-
-
-
-
- Yes []
- No [X]
-
-
-
- Yes [X]
- No []
- \$.....9,032,427

INVESTMENT

- 20.1 Were all the stocks, bonds and other securities owned December 31 of current year, over which the reporting entity has exclusive control, in the actual possession of the reporting entity on said date, except as shown by Schedule E-Part 3-Special Deposits?
- 20.2 If no, give full and complete information relating thereto.
- Yes [X]
- No []

- 21.1 Were any of the stocks, bonds or other assets of the reporting entity owned at December 31 of the current year not exclusively under the control of the reporting entity, except as shown on Schedule E-Part 3-Special Deposits, or has the reporting entity sold or transferred any assets subject to a put option contract that is currently in force? (Exclude securities subject to Interrogatory 17.1)
- 21.2 If yes, state the amount thereof at December 31 of the current year:
- 21.21 Loaned to others
- 21.22 Subject to repurchase agreements
- 21.23 Subject to reverse repurchase agreements
- 21.24 Subject to dollar repurchase agreements
- 21.25 Subject to reverse dollar repurchase agreements
- 21.26 Pledged as collateral
- 21.27 Placed under option agreements
- 21.28 Letter stock or securities restricted as to sale
- 21.29 Other
- 21.3 For category (21.28) provide the following:
- Yes [X]
- No []
- \$.....21,932,828
- \$.....0
- \$.....0
- \$.....0
- \$.....0
- \$.....0
- \$.....0
- \$.....0
- \$.....0
- \$.....0

1	2	3
Nature of Restriction	Description	Amount

- 22.1 Does the reporting entity have any hedging transactions reported on Schedule DB?
- 22.2 If yes, has a comprehensive description of the hedging program been made available to the domiciliary state?
- If no, attach a description with this statement.
- Yes []
- No [X]
- No []
- N/A []

- 23.1 Were any preferred stocks or bonds owned as of December 31 of the current year mandatorily convertible into equity, or, at the option of the issuer, convertible into equity?
- 23.2 If yes, state the amount thereof at December 31 of the current year:
- Yes []
- No [X]
-

GENERAL INTERROGATORIES

PART 1 - COMMON INTERROGATORIES

24. Excluding items in Schedule E, real estate, mortgage loans and investments held physically in the reporting entity's offices, vaults or safety deposit boxes, were all stocks, bonds and other securities, owned throughout the current year held pursuant to a custodial agreement with a qualified bank or trust company in accordance with Part 1-General, Section IV.H-Custodial or Safekeeping Agreements of the NAIC Financial Condition Examiners Handbook? Yes [X] No []

24.01 For agreements that comply with the requirements of the NAIC Financial Condition Examiners Handbook, complete the following:

1 Name of Custodian(s)	2 Custodian's Address
State Street Bank	801 Pennsylvania, Kansas City, MO 64105
Fidelity Investments Institutional Operations Company	100 Magellan Way KW2B Covington, KY 41015
Comerica Bank	P.O. Box 75000 Detroit Mi 48275-3462

24.02 For all agreements that do not comply with the requirements of the NAIC Financial Condition Examiners Handbook, provide the name, location and a complete explanation:

1 Name(s)	2 Location(s)	3 Complete Explanation(s)

24.03 Have there been any changes, including name changes, in the custodian(s) identified in 24.01 during the current year? Yes [] No [X]

24.04 If yes, give full and complete information relating thereto:

1 Old Custodian	2 New Custodian	3 Date of Change	4 Reason

24.05 Identify all investment advisors, brokers/dealers or individuals acting on behalf of broker/dealers that have access to the investment accounts, handle securities and have authority to make investments on behalf of the reporting entity:

1 Central Registration Depository Number(s)	2 Name	3 Address
	Blue Cross Blue Shield of Michigan	600 E. Lafayette Blvd. Detroit, MI 48226

25.1 Does the reporting entity have any diversified mutual funds reported in Schedule D, Part 2 (diversified according to the Securities and Exchange Commission (SEC) in the Investment Company Act of 1940 [Section 5(b)(1)])? Yes [] No [X]

25.2 If yes, complete the following schedule:

1 CUSIP #	2 Name of Mutual Fund	3 Book/Adj. Carrying Value
25.2999. TOTAL		0

25.3 For each mutual fund listed in the table above, complete the following schedule:

1 Name of Mutual Fund (from the above table)	2 Name of Significant Holding of the Mutual Fund	3 Amount of Mutual Fund's Book/Adjusted Carrying Value Attributable to Holding	4 Date of Valuation

26. Provide the following information for all short-term and long-term bonds and all preferred stocks. Do not substitute amortized value or statement value for fair value.

	1 Statement (Admitted) Value	2 Fair Value	3 Excess of Statement over Fair Value (-), or Fair Value over Statement (+)
26.1 Bonds.....	.....415,700,624	.....415,939,597	.....238,973
26.2 Preferred stocks.....	.....	.....	.....0
26.3 Totals.....	.....415,700,624	.....415,939,597	.....238,973

26.4 Describe the sources or methods utilized in determining the fair values:
State Street Bank is the source for determining all fair values.

27.1 Have all the filing requirements of the Purposes and Procedures Manual of the NAIC Securities Valuation Office been followed? Yes [X] No []

27.2 If no, list exceptions:

OTHER

28.1 Amount of payments to trade associations, service organizations and statistical or rating bureaus, if any? \$.....577,276

28.2 List the name of the organization and the amount paid if any such payment represented 25% or more of the total payments to trade associations, service organizations and statistical or rating bureaus during the period covered by this statement.

1 Name	2 Amount Paid
Blue Cross Blue Shield Association	319,836
America's Health Insurance Plan	236,250

29.1 Amount of payments for legal expenses, if any? \$.....38,939

29.2 List the name of the firm and the amount paid if any such payment represented 25% or more of the total payments for legal expenses during the period covered by this statement.

1 Name	2 Amount Paid
Walton and Donnelly PC	14,082
Dickinson Wright PLLC	16,525

30.1 Amount of payments for expenditures in connection with matters before legislative bodies, officers or departments of government, if any? \$.....0

30.2 List the name of the firm and the amount paid if any such payment represented 25% or more of the total payment expenditures in connection with matters before legislative bodies, officers or departments of government during the period covered by this statement.

1 Name	2 Amount Paid

Blue Care Network of Michigan
GENERAL INTERROGATORIES (continued)

PART 2 - HEALTH INTERROGATORIES

1.1

Does the reporting entity have any direct Medicare Supplement Insurance in force?

Yes [☐]

No [☒]

1.2

If yes, indicate premium earned on U.S. business only

1.3

What portion of Item (1.2) is not reported on the Medicare Supplement Insurance Experience Exhibit?

1.31

Reason for excluding

1.4

Indicate amount of earned premium attributable to Canadian and/or Other Alien not included in Item (1.2) above.

1.5

Indicate total incurred claims on all Medicare Supplement insurance.

1.6

Individual policies:

Most current three years:

1.61

Total premium earned

1.62

Total incurred claims

1.63

Number of covered lives

All years prior to most current three years:

1.64

Total premium earned

1.65

Total incurred claims

1.66

Number of covered lives

1.7

Group policies:

Most current three years:

1.71

Total premium earned

1.72

Total incurred claims

1.73

Number of covered lives

All years prior to most current three years:

1.74

Total premium earned

1.75

Total incurred claims

1.76

Number of covered lives

2.

Health test:

	1 Current Year	2 Prior Year
2.1 Premium Numerator.....	1,563,699,858	1,438,390,510
2.2 Premium Denominator.....	1,563,699,858	1,438,390,510
2.3 Premium Ratio (2.1/2.2).....	100.0	100.0
2.4 Reserve Numerator.....	276,364,685	252,662,980
2.5 Reserve Denominator.....	276,364,685	252,662,980
2.6 Reserve Ratio (2.4/2.5).....	100.0	100.0

3.1

Has the reporting entity received any endowment or gift from contracting hospitals, physicians, dentists, or others that is agreed will be returned when, as and if the earnings of the reporting entity permits?

Yes [☐]

No [☒]

3.2

If yes, give particulars:

4.1

Have copies of all agreements stating the period and nature of hospitals', physicians', and dentists' care offered to subscribers and departments been filed with the appropriate regulatory agency?

Yes [☒]

No [☐]

4.2

If not previously filed, furnish herewith a copy(ies) of such agreement(s). Do these agreements include additional benefits offered?

Yes [☐]

No [☒]

5.1

Does the reporting entity have stop-loss reinsurance?

Yes [☐]

No [☒]

5.2

If no, explain:

Blue Care Network of Michigan participates in the BCN Stop-Loss & Casualty Self-Insurance Trust. Expiration date of 12/31/06.

Unlimited coverage with a deductible of \$150,000. At the request of OFIS, BCN accounts for the activity with the Trust as if it were re-insurance.

5.3

Maximum retained risk (see instructions):

5.31

Comprehensive medical

\$.....150,000

5.32

Medical only

\$.....0

5.33

Medicare supplement

\$.....150,000

5.34

Dental

\$.....0

5.35

Other limited benefit plan

\$.....0

5.36

Other

\$.....0

6.

Describe arrangement which the reporting entity may have to protect subscribers and their dependents against the risk of insolvency including hold harmless provisions, conversion privileges with other carriers, agreements with providers to continue rendering services, and any other agreements:

Hold Harmless provisions are included in contracts with providers.

In addition, a State mandated cash reserve is maintained along with Stop-Loss Self-Insurance coverage which includes an insolvency clause.

7.1

Does the reporting entity set up its claim liability for provider services on a service date base?

Yes [☒]

No [☐]

7.2

If no, give details:

8.

Provide the following information regarding participating providers:

8.1

Number of providers at start of reporting year

.....12,896

8.2

Number of providers at end of reporting year

.....13,429

9.1

Does the reporting entity have business subject to premium rate guarantees?

Yes [☐]

No [☒]

9.2

If yes, direct premium earned:

9.21

Business with the rate guarantees between 15-36 months

9.22

Business with rate guarantees over 36 months

10.1

Does the reporting entity have Incentive Pool, Withhold or Bonus arrangements in its provider contracts?

Yes [☒]

No [☐]

10.2

If yes:

10.21

Maximum amount payable bonuses

\$.....48,913,134

10.22

Amount actually paid for year bonuses

\$.....35,454,839

10.23

Maximum amount payable withholds

\$.....7,939,179

10.24

Amount actually paid for year withholds

\$.....10,269,778

GENERAL INTERROGATORIES (continued)

PART 2 - HEALTH INTERROGATORIES

11.1 Is the reporting entity organized as:

11.12 A Medical Group/Staff Model,

11.13 An Individual Practice Association (IPA), or

11.14 A Mixed Model (combination of above)?

Yes []

No [X]

11.2 Is the reporting entity subject to Minimum Net Worth Requirements?

Yes [X]

No []

11.3 If yes, show the name of the state requiring such net worth.

Michigan

11.4 If yes, show the amount required.

\$.....62,868,916

11.5 Is this amount included as part of a contingency reserve in stockholder's equity?

Yes []

No [X]

11.6 If the amount is calculated, show the calculation:

4% times direct premiums written

\$1,571,722.906 X 4% = \$62,868,916

12. List service areas in which reporting entity is licensed to operate:

1 Name of Service Area
ALCONA
ALLEGAN
ALPENA
ANTRIM
ARENAC
BARRY
BAY
BENZIE
BERRIEN
CALHOUN
CASS
CHARLEVOIX
CHEBOYGAN
CLARE
CLINTON
CRAWFORD
EATON
EMMET
GENESEE
GLADWIN
GRAND TRAVERSE
GRATIOT
HILLSDALE
HURON
INGHAM
IONIA
IOSCO
ISABELLA
JACKSON
KALAMAZOO
KALKASKA
KENT
LAPEER
LEELANAU
LIVINGSTON
MACKINAC
MACOMB
MANISTEE
MIDLAND
MECOSTA
MONROE
MONTCALM
MONTMORENCY
MUSKEGON
NEWAYGO
OAKLAND
OCEANA
OGEMAW
OSCODA
OTSEGO
OTTAWA
PRESQUE ISLE
ROSCOMMON
SAGINAW
SHIAWASSEE
ST. CLAIR
ST. JOSEPH
TUSCOLA
VAN BUREN
WASHTENAW
WAYNE
WEXFORD

FIVE-YEAR HISTORICAL DATA

	1 2006	2 2005	3 2004	4 2003	5 2002
Balance Sheet Items (Pages 2 and 3)					
1. Total admitted assets (Page 2, Line 26).....	650,885,443	697,705,479	618,295,943	554,851,331	428,285,894
2. Total liabilities (Page 3, Line 22).....	422,598,918	384,682,565	399,817,739	413,344,160	341,599,712
3. Statutory surplus.....	62,868,916	57,673,083	56,141,701	54,380,471	51,666,796
4. Total capital and surplus (Page 3, Line 31).....	228,286,525	313,022,914	218,478,204	141,507,171	86,686,182
Income Statement Items (Page 4)					
5. Total revenues (Line 8).....	1,567,047,772	1,439,429,414	1,395,437,885	1,352,667,185	1,285,757,719
6. Total medical and hospital expenses (Line 18).....	1,345,952,457	1,154,101,893	1,115,660,742	1,098,493,074	1,150,225,740
7. Claims adjustment expenses (Line 20).....	71,981,102	70,738,036	78,409,518	67,811,676	12,618,879
8. Total administrative expenses (Line 21).....	152,607,030	152,537,245	128,764,350	138,698,989	118,951,315
9. Net underwriting gain (loss) (Line 24).....	(3,492,817)	62,052,240	72,603,275	47,663,446	3,961,786
10. Net investment gain (loss) (Line 27).....	31,818,299	16,488,247	8,541,784	5,743,105	6,547,649
11. Total other income (Lines 28 plus 29).....	95,262	(92,237)			
12. Net income or (loss) (Line 32).....	28,389,203	78,396,434	80,999,195	53,130,301	10,509,435
Risk-Based Capital Analysis					
13. Total adjusted capital.....	228,286,525	313,022,914	218,478,204	141,507,171	86,686,182
14. Authorized control level risk-based capital.....	60,723,694	41,176,565	39,394,003	36,585,360	36,251,968
Enrollment (Exhibit 1)					
15. Total members at end of period (Column 5, Line 7).....	482,998	452,163	460,516	478,043	518,946
16 Total member months (Column 6, Line 7).....	5,622,483	5,398,464	5,509,462	5,898,716	6,280,413
Operating Percentage (Page 4) (Item divided by Page 4, sum of Lines 2, 3, and 5) x 100					
17. Premiums earned plus risk revenue (Line 2 plus Lines 3 and 5).....	100.0	100.0	100.0	100.0	100.0
18. Total hospital and medical plus other non-health (Line 18 plus Line 19)....	85.8	80.1	79.7	80.8	89.1
19. Cost containment expenses.....	3.3	3.6	4.0	XXX	XXX
20. Other claims adjustment expenses.....	1.2	1.3	5.6		
21. Total underwriting deductions (Line 23).....	100.1	95.6	94.6	96.0	99.3
22. Total underwriting gain (loss) (Line 24).....	(0.2)	4.3	5.2	3.5	0.3
Unpaid Claims Analysis (U&I Exhibit, Part 2B)					
23. Total claims incurred for prior years (Line 13 Col. 5).....	211,304,436	206,932,230	217,419,418	195,026,594	250,776,910
24. Estimated liability of unpaid claims - [prior year (Line 13, Col. 6)]	238,432,447	250,114,424	246,898,321	223,296,904	256,989,508
Investments in Parent, Subsidiaries and Affiliates					
25. Affiliated bonds (Sch. D Summary, Line 25, Col. 1).....					
26. Affiliated preferred stocks (Sch D. Summary, Line 39, Col. 1).....					
27. Affiliated common stocks (Sch D. Summary, Line 53, Col. 2).....	229,173,933				
28. Affiliated short-term investments (subtotal included in Sch. DA, Part 2, Col. 5, Line 11).....					
29. Affiliated mortgage loans on real estate.....					
30. All other affiliated.....	65,954,840	56,008,811	52,835,985	50,601,683	47,813,064
31. Total of above Lines 25 to 30.....	295,128,773	56,008,811	52,835,985	50,601,683	47,813,064

SCHEDULE D - SUMMARY BY COUNTRY
Long-Term Bonds and Stocks OWNED December 31 of Current Year

Description		1 Book/Adjusted Carrying Value	2 Fair Value	3 Actual Cost	4 Par Value of Bonds
BONDS Governments (Including all obligations guaranteed by governments)	1. United States.....	1,001,372	1,003,130	1,001,719	1,000,000
	2. Canada.....				
	3. Other Countries.....				
	4. Totals.....	1,001,372	1,003,130	1,001,719	1,000,000
States, Territories and Possessions (Direct and guaranteed)	5. United States.....				
	6. Canada.....				
	7. Other Countries.....				
	8. Totals.....	0	0	0	0
Political Subdivisions of States, Territories and Possessions (Direct and guaranteed)	9. United States.....				
	10. Canada.....				
	11. Other Countries.....				
	12. Totals.....	0	0	0	0
Special Revenue and Special Assessment Obligations and all Non-guaranteed Obligations of Agencies and Authorities of Governments and their Political Subdivisions	13. United States.....	37,972,099	38,144,762	37,980,621	37,880,215
	14. Canada.....				
	15. Other Countries.....				
	16. Totals.....	37,972,099	38,144,762	37,980,621	37,880,215
Public Utilities (Unaffiliated)	17. United States.....				
	18. Canada.....				
	19. Other Countries.....				
	20. Totals.....	0	0	0	0
Industrial and Miscellaneous and Credit Tenant Loans (Unaffiliated)	21. United States.....	4,249,051	4,278,987	4,250,746	4,173,077
	22. Canada.....				
	23. Other Countries.....				
	24. Totals.....	4,249,051	4,278,987	4,250,746	4,173,077
Parent, Subsidiaries and Affiliates	25. Totals.....				
	26. Total Bonds.....	43,222,522	43,426,879	43,233,086	43,053,292
PREFERRED STOCKS Public Utilities (Unaffiliated)	27. United States.....				
	28. Canada.....				
	29. Other Countries.....				
	30. Totals.....	0	0	0	
Banks, Trust and Insurance Companies (Unaffiliated)	31. United States.....				
	32. Canada.....				
	33. Other Countries.....				
	34. Totals.....	0	0	0	
Industrial and Miscellaneous (Unaffiliated)	35. United States.....				
	36. Canada.....				
	37. Other Countries.....				
	38. Totals.....	0	0	0	
Parent, Subsidiaries and Affiliates	39. Totals.....				
	40. Total Preferred Stocks.....	0	0	0	
COMMON STOCKS Public Utilities (Unaffiliated)	41. United States.....				
	42. Canada.....				
	43. Other Countries.....				
	44. Totals.....	0	0	0	
Banks, Trust and Insurance Companies (Unaffiliated)	45. United States.....				
	46. Canada.....				
	47. Other Countries.....				
	48. Totals.....	0	0	0	
Industrial and Miscellaneous (Unaffiliated)	49. United States.....	1,815,790	1,815,790	1,787,492	
	50. Canada.....				
	51. Other Countries.....				
	52. Totals.....	1,815,790	1,815,790	1,787,492	
Parent, Subsidiaries and Affiliates	53. Totals.....	229,173,933	229,173,933	228,925,716	
	54. Total Common Stocks.....	230,989,723	230,989,723	230,713,208	
	55. Total Stocks.....	230,989,723	230,989,723	230,713,208	
	56. Total Bonds and Stocks....	274,212,245	274,416,602	273,946,294	

SCHEDULE D - VERIFICATION BETWEEN YEARS
Bonds and Stocks

1. Book/adjusted carrying value of bonds and stocks, prior year.....	162,501,589	7. Amortization of premium.....	250,651
2. Cost of bonds and stocks acquired, Column 7, Part 3.....	725,183,903	8. Foreign exchange adjustment:	
3. Accrual of discount.....	121,483	8.1 Column 15, Part 1.....	
4. Increase (decrease) by adjustment:		8.2 Column 19, Part 2, Section 1.....	
4.1 Columns 12 - 14, Part 1.....		8.3 Column 16, Part 2, Section 2.....	
4.2 Columns 15 - 17, Part 2, Section 1.....		8.4 Column 15, Part 4.....	0
4.3 Column 15, Part 2, Section 2.....	240,827	9. Book/adjusted carrying value at end of current period.....	274,212,245
4.4 Columns 11 - 13, Part 4.....	(11,310)	10. Total valuation allowance.....	
5. Total gain (loss), Column 19, Part 4.....	(334,514)	11. Subtotal (Lines 9 plus 10).....	274,212,245
6. Deduct consideration for bonds and stocks disposed of, Column 7, Part 4....	613,239,081	12. Total nonadmitted amounts.....	117,864,424
		13. Statement value of bonds and stocks, current year.....	156,347,821

Blue Care Network of Michigan
SCHEDULE T - PREMIUMS AND OTHER CONSIDERATIONS

Allocated by States and Territories

		1	2	Direct Business Only					
				3	4	5	6	7	8
State, Etc.		Guaranty Fund (YES or NO)	Is Insurer Licensed? (YES or NO)	Accident & Health Premiums	Medicare Title XVIII	Medicaid Title XIX	Federal Employees Health Benefits Program Premiums	Life & Annuity Premiums and Deposit-Type Contract Funds	Property/ Casualty Premiums
1.	Alabama.....AL	..NO.....	..NO.....						
2.	Alaska.....AK	..NO.....	..NO.....						
3.	Arizona.....AZ	..NO.....	..NO.....						
4.	Arkansas.....AR	..NO.....	..NO.....						
5.	California.....CA	..NO.....	..NO.....						
6.	Colorado.....CO	..NO.....	..NO.....						
7.	Connecticut.....CT	..NO.....	..NO.....						
8.	Delaware.....DE	..NO.....	..NO.....						
9.	District of Columbia.....DC	..NO.....	..NO.....						
10.	Florida.....FL	..NO.....	..NO.....						
11.	Georgia.....GA	..NO.....	..NO.....						
12.	Hawaii.....HI	..NO.....	..NO.....						
13.	Idaho.....ID	..NO.....	..NO.....						
14.	Illinois.....IL	..NO.....	..NO.....						
15.	Indiana.....IN	..NO.....	..NO.....						
16.	Iowa.....IA	..NO.....	..NO.....						
17.	Kansas.....KS	..NO.....	..NO.....						
18.	Kentucky.....KY	..NO.....	..NO.....						
19.	Louisiana.....LA	..NO.....	..NO.....						
20.	Maine.....ME	..NO.....	..NO.....						
21.	Maryland.....MD	..NO.....	..NO.....						
22.	Massachusetts.....MA	..NO.....	..NO.....						
23.	Michigan.....MI	..NO.....	..YES.....	1,473,479,499	37,641,675		51,507,018		
24.	Minnesota.....MN	..NO.....	..NO.....						
25.	Mississippi.....MS	..NO.....	..NO.....						
26.	Missouri.....MO	..NO.....	..NO.....						
27.	Montana.....MT	..NO.....	..NO.....						
28.	Nebraska.....NE	..NO.....	..NO.....						
29.	Nevada.....NV	..NO.....	..NO.....						
30.	New Hampshire.....NH	..NO.....	..NO.....						
31.	New Jersey.....NJ	..NO.....	..NO.....						
32.	New Mexico.....NM	..NO.....	..NO.....						
33.	New York.....NY	..NO.....	..NO.....						
34.	North Carolina.....NC	..NO.....	..NO.....						
35.	North Dakota.....ND	..NO.....	..NO.....						
36.	Ohio.....OH	..NO.....	..NO.....						
37.	Oklahoma.....OK	..NO.....	..NO.....						
38.	Oregon.....OR	..NO.....	..NO.....						
39.	Pennsylvania.....PA	..NO.....	..NO.....						
40.	Rhode Island.....RI	..NO.....	..NO.....						
41.	South Carolina.....SC	..NO.....	..NO.....						
42.	South Dakota.....SD	..NO.....	..NO.....						
43.	Tennessee.....TN	..NO.....	..NO.....						
44.	Texas.....TX	..NO.....	..NO.....						
45.	Utah.....UT	..NO.....	..NO.....						
46.	Vermont.....VT	..NO.....	..NO.....						
47.	Virginia.....VA	..NO.....	..NO.....						
48.	Washington.....WA	..NO.....	..NO.....						
49.	West Virginia.....WV	..NO.....	..NO.....						
50.	Wisconsin.....WI	..NO.....	..NO.....						
51.	Wyoming.....WY	..NO.....	..NO.....						
52.	American Samoa.....AS	..NO.....	..NO.....						
53.	Guam.....GU	..NO.....	..NO.....						
54.	Puerto Rico.....PR	..NO.....	..NO.....						
55.	U.S. Virgin Islands.....VI	..NO.....	..NO.....						
56.	Northern Mariana Islands.....MP								
57.	Canada.....CN	..NO.....	..NO.....						
58.	Aggregate Other alien.....OT	..XXX.....	..XXX.....	0	0	0	0	0	0
59.	Subtotal.....	..XXX.....	..XXX.....	1,473,479,499	37,641,675	0	51,507,018	0	0
60.	Reporting entity contributions for Employee Benefit Plans.....	..XXX.....	..XXX.....	9,094,714					
61.	Total (Direct Business).....	....XXX.....	(a).....1	1,482,574,213	37,641,675	0	51,507,018	0	0

DETAILS OF WRITE-INS									
5801.	.....							
5802.	.....							
5803.	.....							
5898.	Summary of remaining write-ins for line 58 from overflow page.....		0	0	0	0	0	0	0
5899.	Total (Lines 5801 thru 5803 plus 5898) (Line 58 above).....		0	0	0	0	0	0	0

Explanation of basis of allocation by states, premiums by state, etc.

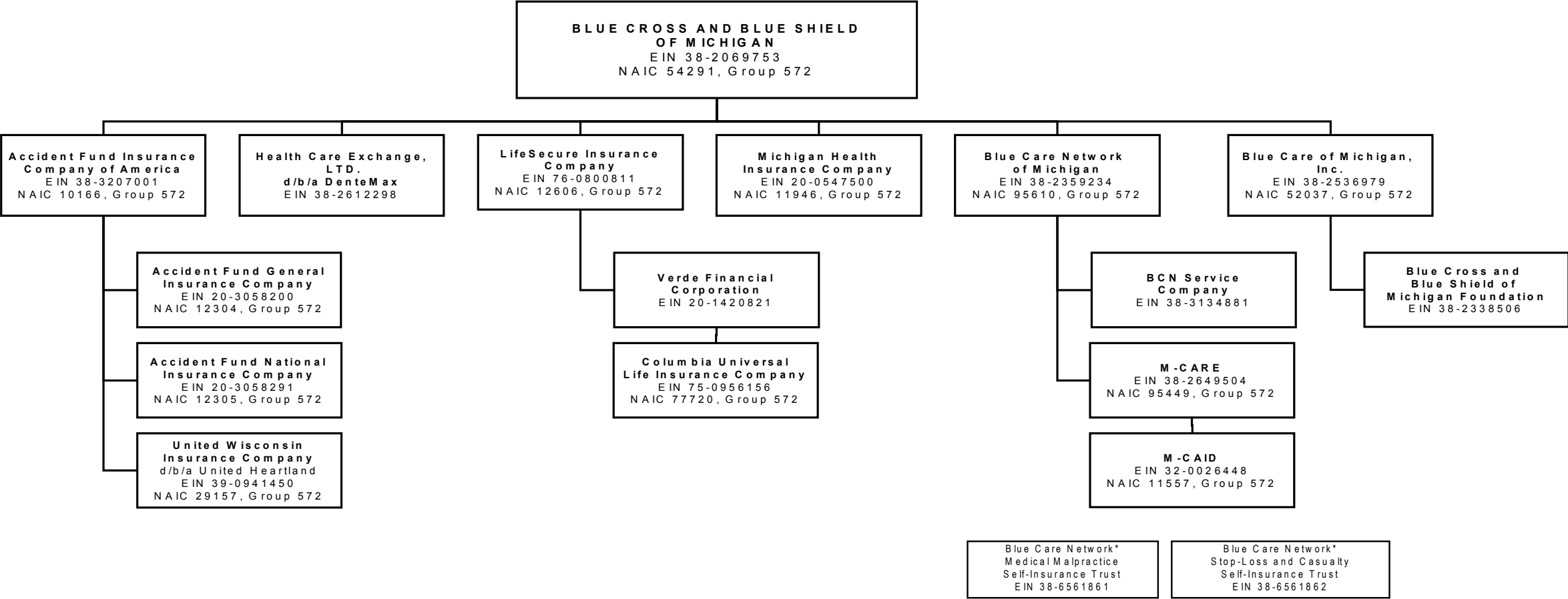
(a) Insert the number of yes responses except for Canada and Other Alien.

SCHEDULE Y – INFORMATION CONCERNING ACTIVITIES OF INSURER MEMBERS OF A HOLDING COMPANY GROUP
PART 1 - ORGANIZATIONAL CHART



A nonprofit corporation and independent licensee
of the Blue Cross and Blue Shield Association

SUBSIDIARY & AFFILIATE ORGANIZATION CHART



* Blue Care Network of Michigan participates in these Trusts for self-insurance purposes.

SCHEDULE Y – INFORMATION CONCERNING ACTIVITIES OF INSURER MEMBERS OF A HOLDING COMPANY GROUP

PART 1 - ORGANIZATIONAL CHART
